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**Investigating the Impact of Capitalism Policy on the British Economy  
After the Second World War**

**Dissertation Submitted in Partial Fulfillment of the Requirements for  
Master's Degree in Literature and Civilization**

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## **Dedication**

This work is completely dedicated to our dear, lovely, and respectful parents for their  
never-ending support, guidance, and confidence

To our beloved husbands for their motivation, belief, and patience

To our supervisor **Mr. Ibrahim Sib** for his encouragement, guidance, continuous support, and  
presence whenever we need

To our relatives, friends, who were with us in good and bad

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Nevertheless, we take a full responsibility for the omissions or mistakes that existed in our work.

## **Abstract**

Throughout history, the Second World War (1939-1945) had changed the world completely in a number of ways, it would make more difficult to return to the extension of globalization pre-1945 periods, particularly for the British economy which was deteriorated since the post-war period. The following post-war period saw unprecedented economic expansion in the world economy, resulting in a visible emergence in the development of capitalism known as the golden age of capitalism in Europe. This massive movement had a significant influence on the rest of the globe, particularly on the British economy. On this basis, this dissertation attempts to shed light on the capitalism policy and its impact on post-war British economy. The study under investigation focuses on the economics of the period of the Second World War. For this reason, corpus-based approach has been used in order to analyse the data gathered from historical books, journals, and academic website articles. Throughout analysing historical events and the academic situation before and after the Second World War, this study reveals that the British economy witnessed a broad economic expansion that helped raise the capitalism policy in the UK, even though it was a slow process.

**Key words:** Second World War , British Economy, Capitalism, Policy, Post-war

## **List of Abbreviations and Acronyms**

**ANC** Action for Neighbourhood Change

**Brexit** Britain and Exit

**EEC** European Economic Company

**EFTA** European Free Trade Area

**EU** European Union

**FDI** Foreign Direct Investment

**GB** Great Britain

**GDP** Gross Domestic Product

**HC** House of Commons

**HL** House of Lords

**TFP** Total Factor Productivity

**UK** United Kingdom

**UKIP** United Kingdom Independence Party

**UNCTD** United Nations Conference on Trade and Development

**UNRRA** United Nation Relief Rehabilitation Administration

**US** United States

**USD** United States Dollar

**USSR** The Union of Soviet Socialist Republics

**WWI** World War One

**WWII** World War Two

## List of Figures

	<b>page</b>
<b>Figure 2.1.</b> the UK economic boom.....	<b>28</b>
<b>Figure 3.1.</b> Changes in the volume of agricultural output in Britain, 1867-1985.....	<b>36</b>
<b>Figure 3.2.</b> Public expenditure in Agricultural Support (Current prices).....	<b>37</b>
<b>Figure 3.3.</b> Manufacturing output 1919-1939, (1922=100).....	<b>38</b>
<b>Figure 3.4.</b> Manufacturing output 1950-1973, (1950=100) .....	<b>39</b>
<b>Figure 3.5.</b> Trade in goods and services (imports+exports) as percentage of GDP...	<b>41</b>
<b>Figure 3.6.</b> The UK inflation since 1920s.....	<b>43</b>
<b>Figure 3.7.</b> The UK inflation since 1970s.....	<b>43</b>
<b>Figure 3.8.</b> Interwar Unemployment.....	<b>44</b>
<b>Figure 3.9.</b> Unemployment in the UK in post war.....	<b>45</b>
<b>Figure 3.10.</b> Real Sterling /Dollar Exchange Rate, United Kingdom.(1921-1930)...	<b>47</b>
<b>Figure 3.11.</b> Sterling Exchange Rates (Foreign Currency Units Per Pound).....	<b>48</b>
<b>Figure 3.12.</b> currency distribution of foreign exchange reserves (1950-1982).....	<b>49</b>

## List of Tables

	<b>Page</b>
<b>Table 2.1.</b> The Governmental Role and Modes of Intervention.....	<b>26</b>
<b>Table 2.2.</b> Average Annual Contributions to UK GDP Growth 1990-2008 in constant Price.....	<b>31</b>
<b>Table 3.1.</b> Annual rates of growth in the volume of agricultural output.....	<b>37</b>
<b>Table 3.2.</b> UK trade in the Inter-war years, by value and volume1919-1938.....	<b>40</b>

# Table of Contents

	<b>page</b>
Dedication.....	<b>I</b>
Acknowledgements.....	<b>II</b>
Abstract.....	<b>III</b>
List of Acronyms and Abbreviations.....	<b>IV</b>
List of Figures.....	<b>V</b>
List of Tables.....	<b>VI</b>
Table of Contents.....	<b>VII</b>
General Introduction.....	<b>1</b>
<b>Chapter One: Defining Concepts</b>	
Introduction.....	<b>5</b>
1.1.Capitalism.....	<b>5</b>
1.1.1.From Feudalism to Birth of Capitalism.....	<b>5</b>
1.1.2.Definition of Capitalism.....	<b>6</b>
1.1.3. History of Capitalism .....	<b>7</b>
1.1.4. Principles of Capitalism.....	<b>7</b>
1.1..5. Types of Capitalism .....	<b>8</b>
1.1.6. The Golden Age of Capitalism.....	<b>8</b>
1.1.7. Capitalism in the UK.....	<b>9</b>
1.2.Policy.....	<b>9</b>

1.2.1. Definition of Policy.....	9
1.2.2. Policy in the United Kingdom.....	11
1.3.The British Economy.....	14
1.3.1.Economic Policy.....	14
1.4.Post-War Period.....	17
1.4.1.Definition of Post-War Period.....	17
1.4.2. Britain in the Twentieth Century.....	18
Conclusion.....	18

## **Chapter Two : Capitalism in Britain after WWII**

Introduction.....	19
2.1.The Golden Age of Capitalism in Post-War Reconstruction.....	19
2.2.The Evolution of Capitalism.....	20
2.3. The British Government and Capitalism.....	21
2.3.1. The Governments of Post-War Britain.....	21
2.3.2. The Role of Government in the Capitalist System.....	25
2.3.3. Privatization and the Development of Capitalism.....	27
2.4. UK Post-war Economic Boom.....	28
2.4.1. UK National Debt.....	29
2.4.2.Inflation of the UK .....	29
2.4.3. Unemployment.....	30
2.4.4.Sources of Economic Boom .....	31
2.5.Brexit Impact on the UK Economy.....	33

2.5.1.Immediate Impact on the UK Economy .....	33
2.5.2. Long Term Impact on the UK Economy.....	34
Conclusion.....	34

### **Chapter Three :The Impact of Capitalism on The British Economy After Second War**

Introduction.....	35
3.1. The British Economy After the Second World War .....	35
3.1.1. Agriculture .....	35
3.1.2. Manufacturing .....	38
3.1.3.Trade.....	39
3.1.4.Inflation.....	42
3.1.5.Unemployment.....	44
3.1.6. Sterling(the Rate of Exchange) .....	46
Conclusion.....	49
General Conclusion.....	50
References.....	54
ملخص.....	57

## **General Introduction**

### **1. Background of the Study**

A considerable number of studies and researches focused on the significance and the importance of capitalism; the most debated topic in the western world. Capitalism policy is defined as an economic system and production model characterized by private property, individual initiative, free competition, and resource allocation through mechanism markets without the need of central state intervention. In other words, most means of productions are owned by private property and hence these productions are guided and income disturbed through general markets known as market economy.

The concept has many debated roots due to its diversity and emergence. Historically, it emerged in the Northern western world, mainly during the industrial revolution in Great Britain at the late of eighteenth century. When the British empire was attached to the black death plague, a new merchant class formed and began trading with other western countries by accumulating excess money or capital. These exported productions affected the local economy and controlled the overall production slowly leading to slavery, colonialism, and imperialism. Later on, a new federal system dominated the British economy, where rural workers were suffering from being forced to keep their master's land. As a result, farmers were homeless and jobless. The end of the eighteenth century, the British economy transformed into an industrial when the industrial revolution was taking place. Later on, the concept of capitalist policy was born and it dominated since the breakup of feudalism. It spread to the entire world, particularly after the end of the Second World War when capitalist policy became global and known as "the global age of capitalism". During this period, there was a massive movement in economic changes in all countries hoping to reshape their identity and build new relations in all domains including the united kingdom which had lost its prominence and power among its neighbours after the end of the colonial period, and since that time it has become more worried about trade and free market policies and started to see itself as a threat by political and economic isolation within Europe.

Hence, Britain adopted a new model of economic power related to capitalism policy which helped the UK economy grow up and develop over time. Therefore, The UK economy has been one of the most radically affected nations by capitalism policy.

## **2. Statement of the Problem**

Following WWII, Britain faced numerous challenges in recovering its worldwide economic supremacy. As a result, like any other European country devastated by the war, Britain established a capitalism policy to rebuild a strong economic policy that would enable it to challenge its European competitors. On that basis, this study examines whether capitalist policy had the intended impact on the British economy, allowing Britain to regain its economic supremacy that it lost in the war.

## **3. Aims of the Study**

The recent piece of research aims to study the expansion powers of capitalist system around the world. Its crucial impact on developing the western countries. In addition, the aim of this study is to investigate how capitalist policy influenced the British economy to grow up particularly after the end of the Second World War.

## **4. Research Questions**

The current investigation seeks to answer the following questions:

1. Is the capitalist policy caused the growth in the British economy after WWII?
2. Was the British boom the result of capitalist policy after WWII?
3. Does the events of world war two increase capitalist efficiency in the UK?
4. How was capitalism was provided by political authorities, in particular the UK politics?
5. Is the creation of popular capitalism beneficial to the economic growth in Britain post-war?

## **5. Research Hypothesis**

In order to seek the answers to the research questions, it is logical to formulate the following hypotheses:

1. The capitalist policy dominates the western world after the end of the Second World War and the British economy affected during this period.
2. Capitalism and imperialism are so inter-related terms in the sense that imperialism expands the profit of the capitalists mainly the British economy.
3. The political economy of the Brexit generates new challenges for European capitalism and for British capitalists more broadly.
4. The privatization policy creates popular capitalism and it assisted the economic growth in post-war Britain.
5. The economic boom wild spread in the global economy thus, the post-war period witnessed unprecedented speed of recovery in the UK economy resulted by capitalism.

## **6. Research Methodology**

The research in hand presents three chapters in order to better understand the concept of capitalism and how it affected the British economy after the WWII. It was necessary to seek the historical origins of capitalism policy and its relation to the economic system of the UK. Thus, research is used in the first two chapters including historical and survey methods. Otherwise, the corpus- based method is applied in the third chapter which based on analysing documents and research published after the WWII in order to understand how the British economy was greatly affected by capitalism.

## **7. Significance of the Study**

The present piece of research will extend existing knowledge about the historical background of capitalism policy including its hegemony and dominance globally. In addition, this

significance is illustrated by understanding how the western world mainly the British economy benefits from this progress made by capitalism. Furthermore, this study will be helpful to provide an important research talking about the main concern that made the British economic system arise after the Second World War.

## **8. Structure of the Dissertation**

In order to better understand the issue of capitalist policy applied to the British economy essentially after WWII, the current dissertation is divided into three cohesive chapters. The first two chapters are theoretical, while the third one is practical. The first chapter presents a general background about capitalism policy and its globalization in the western world. Furthermore, this chapter provides with clear definitions of the main concepts related to the topic like capitalism, policy, british economy, and the second World War. The second chapter discusses the relationship between capitalism and policy, British economy and Post-war II, capitalism policy and british economy, in addition to discussing the basic relations between capitalism and political authorities after the second world war. Otherwise, the third chapter provides a clear description of the economic consequences led by applying capitalism to the economic system of the UK and how it dominated the western world after WWII and became global. In addition, this chapter discusses the pillars of the british economy before and after WWII.

# **CHAPTER ONE**

## **Defining Concepts**

## **Chapter One: Defining Concepts**

Introduction.....	<b>5</b>
1.1.Capitalism.....	<b>5</b>
1.1.1.From Feudalism to Birth of Capitalism.....	<b>5</b>
1.1.2.Definition of Capitalism.....	<b>6</b>
1.1.3. History of Capitalism .....	<b>7</b>
1.1.4. Principles of Capitalism.....	<b>7</b>
1.1..5. Types of Capitalism .....	<b>8</b>
1.1.6. The Golden Age of Capitalism.....	<b>8</b>
1.1.7. Capitalism in the UK.....	<b>9</b>
1.2.Policy.....	<b>9</b>
1.2.1. Definition of Policy.....	<b>9</b>
1.2.2. Policy in the United Kingdom.....	<b>11</b>
1.3.The British Economy.....	<b>14</b>
1.3.1.Economic Policy.....	<b>14</b>
1.4.Post-War Period.....	<b>17</b>
1.4.1.Definition of Post-War Period.....	<b>17</b>
1.4.2. Britain in the Twentieth Contrary.....	<b>18</b>
Conclusion.....	<b>18</b>

## **Introduction**

For centuries, Britain has been described as having one of the most prominent positions in the world, both economically and politically. Thus, the present study is devoted to highlight the economic and political system after the Second World War in Great Britain. This chapter discusses the four key concepts in this research. First, it provides a broad definition on capitalism as an economic system that is widespread in the United Kingdom and its golden age after the decades of the Second World War. Second, this part attempts to clarify the political system in the UK. The third part defines the world economy and the British economy in particular in the post-war II era. Besides, this chapter also draws attention to the post-war period and the substantial changes that happened in the Britain after WWII. To sum up, the current chapter provides an overview on the topic.

### **1.1 Capitalism**

#### **1.1.1. From Feudalism to Birth of Capitalism**

The transition from feudalism to the capitalist system was an evolutionary process which took several centuries to materialise. Previously, the feudal system was the political system that served the needs of the medieval European society for more than six centuries. The word feudalism is derived from the medieval Latin term "feudal" which means free (Brown, n.d.), and therefore, feudalism refers to aristocracy and vassals, in which the nobility held lands from the crown for exchanging military services, and vassals were in turn tenants of the nobles, while the serfs were forced to live on their lord lands giving him homage, labour, and nationality. But after a long period of success, feudalism creates a static system based on stratification, localism and exclusiveness. During the 12th and 13th centuries, more forces and changes appeared in the European society, These forces proved a dynamic and expanding change that could not get along with a static and exclusive system as feudalism worked. Additionally, the emergence of trade and commerce on European scale and the rise of the east west trade had broken the feudalism

system. Hence, the influence of renaissance and reformation on trade leads to decline the feudal system and the emergence of new political system known as capitalism. (COMNINEL, 2000).

### **1.1.2. Definition of Capitalism**

According to The Macmillan Dictionary of Modern Economics (1986), capitalism can be defined as follows:

Political, social, and economic system in which property, including capital assets, is owned and controlled for the most part by private persons. Capitalism contrasts with an earlier economic system, feudalism, in that it is characterized by the purchase of labor for money wages as opposed to the direct labour obtained through custom, duty or command in feudalism.... Under capitalism, the price mechanism is used as a signalling system which allocates resources between uses. The extent to which the price mechanism is used, the degree of competitiveness in markets, and the level of government intervention distinguish exact forms of capitalism. (p. 54).

This statement identified capitalism as a social, political, and economic system based on private ownership where private actors own and control property in accordance with their interests, and survey the best interests of society by supplying and demanding freely set prices in a market economy. (Scott, 2006)

Capitalism is basically a system of governance for economic affairs and continues to evolve overtime. Besides, the goal of all capitalists is to use various inputs in order to obtain profit. However, the government in this prospective is the agency by which the citizens of the country protect their rights. It also embodies the rule of law not the rule of men. Thus, the government is responsible for peace, justice and tolerable taxes. Additionally, capitalism is the socio-economic system that operates between the economy and the state in which all property is privately owned. It is a system of *laissez-faire*, which means a systematic implementation of the principle underlying the separation of economy and state freedom. The capitalist system is a social system

that is based on the recognition and protection of individual rights. It is with the individual as the primary unit of political, social, and economic life. It is characterized by moral sovereignty over one's own life that means organizing the moral sovereignty of the individual over his own life. To conclude, capitalism is the social economic system that separates the economy from the state (Scott, 2006).

### **1.1.3. History of Capitalism**

Capitalism evolved historically from the previous systems of feudalism and mercantilism in Europe, and primarily expanded industrialization and the large scale availability of mass market consumer of goods, eventually becoming the world's most dominant economic system. Capitalism emerged in Europe during the 17th century (the Middle Ages) Capitalism emerged in Europe during the 17th century (the Middle Ages). It started when the machinists became more involved in the production of goods by supplying materials and paying wages. In addition to mercantilism, the industrialization of most enterprises, such as clothing, gave rise to capitalism, a system in which accumulated capital was invested to increase productivity. (Verso, 2002).

It was traditionally traced back to the 18th century treatise *An Inquiry into the Nature and Causes of National Wealth* (1776) by Adam Smith, a Scottish political economist. He realized that mercantilism was not a force of development and change, but rather a regressive system that created trade imbalances between nations and prevented them from progressing. His free market ideas paved the way for capitalism to become the most globalized system in the world. (Verso, 2002).

### **1.1.4. Principles of Capitalism**

Recently, modern economic societies in the Western world have been organized under the banner of capitalism, which is governed by rules and regulations. The capitalist system would collapse if these rules were not followed. First capitalism is characterized by private property rights, which are defined by individuals' theoretical and legal ownership of specific property and

the ability to determine how such property is used. Second, private enterprise controls the factors of production in capitalism, including land, labor, and capital. Private corporations use a combination of these facts to maximize profit and efficiency. Third, capitalism; also controlled by accumulation of competition, which refers to the increase in assets as a result of investments or profits that contribute to the formation of the building blocks of a capitalist economy. (HAYES, 2021).

### **1.1.5. Types of Capitalism**

Despite the fact that capitalism has been deemed progressive and highly successful in most countries, economists have defined three types of capitalism based on the role of entrepreneurship. First, Free market capitalism is an economic model in which the prices of goods and services are determined by market economic forces rather than government restrictions. It is based on the laissez-faire principle, which emphasizes the government's non-interference with the national economy except for the protection of property and rights. Furthermore, social market capitalism is a free market economy based on economic production with the limitations of government intervention. In this perspective, the government interferes with price formation in limited capacity. The government's role is to provide entitlement services such as health care and free education to all citizens. Additionally, state capitalism is distinguished by control and ownership of the means of production. These industries are organized in a capitalist manner, which means that the goal of business entities within state capitalism is primarily to maximize profits. (Jahan. n.d.).

### **1.1.6. The Golden Age of Capitalism**

In the years since World War II, there has been a massive increase of economic recovery, accompanied by unprecedented levels of international cooperation. Following the Second World War, with conditions in war-torn areas horrendous, several governments ran budget deficits in an effort to rebuild both housing and industry, and they faced several balance of payment complications in the process. Thus, the golden age of capitalism is a period of economic

prosperity that lasted from 1945 to 1970, when the Bretton Woods monetary system collapsed. In this period, we can see economic growth with high productivity and low unemployment, particularly in Western Europe and East Asia. It was also marked by the emergence of new international institutions such as the International Monetary Fund (IMF) and the World Bank as part of the Bretton Woods monetary system, the United Nations Conference on Trade and Development (UNCTD), and the birth of many new nations as a result of decolonization and the emergence of international cooperation such as the Marshall Plan for the reconstruction of Western Europe. (SACHS, 1999).

### **1.1.7. Capitalism in the UK:**

In Britain, capitalism progress was essentially a spontaneous chain of events that habituated the landed nobility to market forces while simultaneously establishing widespread conviction in civil society's economic efficiency and diminishing the function of the state as an economic agency. It has one of the most extreme types of capitalism in the world because much of the UK markets are in the hands of institutional investors, none of whom have a major controlling stake in the top corporations. To sum up, The UK is considered among the largest capitalist nations in the world that is characterized by its unbalanced economy and systems. (Cain, 2002).

## **1.2. Policy**

### **1.2.1. Definition of Policy**

There are several definitions of policy because of the several fields or domains. Wies (1994) defines the term policy as a number of rules that are correlated to domain managed objects. It derives from management goals and it clarifies the desired behaviour of distributed heterogeneous systems, applications, and networks. (Wies, 1994). To sum up, policy is an active concept and it varies according to the domains. Also, Dodd and Boyd define policy as set of organized actions. That it is unanimous by a group of individuals with the power to carry it out and enforce it. In addition to, simply, policies guide the actions; it can be guidelines, rules, laws,

principles regulations or directions. It clarifies what should be done, how and for whom it should be done. In the world there are a considerable number of policies for example; families make policies like "No games before homework is done". (Dodd and Boyd, 2000). Policy is the organization of actions by applying specific rules. (Turjman, 2005). Logically, people use policy whether they understand and are aware of it or not. Thus, people actually use public policy in life. Moreover, Vibrant Communities and Action for Neighbourhood Change are the key elements that help in the improvement of policy. When policies are engaged in local efforts, it improves the quality of life. Vibrant Communities is a national project that links 15 communities seeking effective local solutions to reduce poverty. (Turjman, 2005); while, Action for Neighbourhood Change (ANC) is a pan-Canadian project that covers four national and five local partners renovating five selected neighbourhoods toward the country. (Turjman, 2005). Constantly, people practise policies all the time whether they aware of it or not.

Looking for policy accrued with several paths such as substantive and administrative policy, vertical and horizontal policy, reactive and proactive policy, and current and future policy. (Turjman, 2005). Firstly, substantive and administrative policy, in this respect, it is clear that there are several kinds of policy. The first type is concerned with the legislation, programs and practices that govern the important features of community work; it involves employment initiatives, income security, social exclusion, and child care services. While the second type of policy emphasizes the administrative proceedings that involve for instance, the collection of statistical information on neighbourhoods and the evaluation of complex community programs.

Secondly, the other classification of the prior kind of policy is vertical and horizontal policy. The organization that has responsibility for its implementation developed the latter type. On other hand, Vertical policy is known as the normal and the way in which policy decisions are made traditionally. Organizational structure and generally stats help in the development of vertical policy, also called corporate or frame work policy. Making decisions that guide

throughout is the responsibility of the head of office in the organization. In addition, regional or strategic policy may be developed at the regional level to translate national decisions to the regional level in a specific context. Finally, the regional policy is made specific enough to guide operational decision-making (Smith, 2003). In contrast, two or more organizations are integrated in the development of horizontal policy-making and each organization deals only with one dimension of a certain situation. Horizontal policy is known as the integrated policy, it is created between parts of an organization or among organizational components that are similar in hierarchical situation. (Smith, 2003). Horizontal policy-making is emphasized and focused by the government because of its importance and the recognition of the common interest, for instance climate change, Aboriginal issues and the concerns rooted in cities and communities.

Thirdly, reactive and proactive policies are the other categories of policy. Reactive policy emerges in response to a concern or crisis that should be addressed for instance, health emergencies and environmental disasters. While proactive policies are introduced and pursued through deliberate choice. The appropriate examples of the recent approach are the national skills and learning agenda, and knowledge and learning are the vital keys and the basis for both economic wealth and social well-being.

Finally, current and future policies are another classification of policy. Policies can be categorized as currently on the public agenda and the policies that cannot be on the public agenda are not. (Smith, 2003). In conclusion, policy has several categories.

### **1.2.2. Policy in the United Kingdom**

The UK political system links the four separate nations, such as England, Scotland, Wales and Northern Ireland. Marsicano (2016) declares that the UK parliament began in 1215 with the signing of the Magna Carta and continued by Simon De Montfort in 1265. It included laymen for the first time that held separate advisory roles from lords. The UK parliament consists of three parts: The Regent (Queen Elizabeth II), the House of Lords, and the House of Commons.

## **1.2.2.1. Political Parties and Ideologies**

### **1.2.2.1.1. What is a Political Party?**

The political system in UK depends on the political parties. The Political Party is a group of well-organized members sharing the same political views and ideas in order to influence public policy by electing its candidates. The parties in the British political system that mentioned by CLARK(2018) are discussed below:

The Conservative Party, the party aims to enhance responsibility and security; it helps people for being strong, growth, free society and strong nation.

The Labour Party, it is the democratic socialist party, it believes that the community in which power, wealth and opportunity are available for many people; living together in respect, tolerance and solidarity. The labour party believes in society, an open democracy and a healthy environment.

The Liberal Democrats, the party believes in free and open society and it aim to enhance values of liberty, equality and community.

The United Kingdom Independence Party (UKIP), the party aims to rebalance power from large corporations and big government institutions and return it back to the people of the country.

The Green Party, the party aims to create a suitable atmosphere for people with good economy, helpful society, protected planets, and using renewable energy.

Other Parties, in UK and not only in England but also in the other nations there are several political parties.

### **1.2.2.2. The Political System in The UK**

Logically, the law organizes and civilizes people and should be respected to avoid anarchy. British is a constitutional monarchy that, which means it is a country governed by King/Queen who accepts the ideas of parliament which is elected by the people (parliamentary democracy).

The UK political system separates the three powers: Legislative power, it is responsible for creating, generating, legislating and removing laws. The parliament represents this power. Judicial power, it is responsible for those who violate or break the laws and for interpreting and clarifying the laws. Thus, the Supreme Court and local courts act. Executive power, it is responsible for applying, putting in to effect, implementing, carrying out, enforcing and performing laws. It is comprised of the presidency, the Prime Minister, the Monarch, government department and the cabinet. In sum, the three authorities in Britain determined the system of law enforced in the kingdom.(The Law Academy, 2021).

Parliament: it is a group of people who meet in an area to discuss people's needs (Westminster place). The British parliament is divided into two houses (bicameral) but has their parts which are: the Crown (the Monarch): the one who rules the country (Queen Elisabeth II). She lives in the Buckingham palace. House of Lords: the members are successful of Barons, Earls, Dukes of medieval England; members called peers appointed for life; the main function of HLs is to examine and to discuss Bills introduced in the house of commons. They can also delay the legislation for a year, but they cannot stop those bills completely. However, the House of commons: main function is to pass the laws and regulations governing the UK and to examine closely the activities of the government. The HC has a maximum term of five years at the end of which a general election must be held; the 650 members of parliament who sit in the Commons are elected representatives of British people and each member of parliament represents one of the 650 constituencies into which the UK is divided. Also, in Britain, there are two party systems. One of the two big parties is the Conservative Party. The second big party is the Labour Party.

The speaker: who organizes the dialogue during the parliamentary conversations to achieve order and the appropriate position for the conversations. The Prime Minister: who is the head of the government, lives at a very famous address. November 10 Downing Street. The Prime Minister chooses about 22 people from his /her party to be ministers in the cabinet; he is the most powerful person in the government, he is the leader of his party and has a seat in the HCs.(Marsicano, 2016).

To conclude, the systematic political system that applied in UK assists to control the four nations.

### **1.3. The British Economy**

Despite being the 78th largest nation, the British economy was the second largest in Europe, consisting of England, Scotland, Wales, and Northern Ireland, as well as the second largest financial centre in the world assessed by GDP (nominal gross domestic product). It is frequently referred to be one of the world's most globalized countries. Throughout history, the Great Britain, particularly England, has become one of Europe's most wealthy economic rigorous.

The industrial revolution in the nineteenth century resulted in a fiercely autonomous, sophisticated, and worldwide trade economy. It develops a strategy for enhancing the pace of economic growth known as "economic policy". (Hotten, 2022). As a result, Britain is a leading industrial force in the international economy as well as a major political power.

#### **1.3.1. Economic Policy**

##### **1.3.1.1. Definition**

According to Nigel Lawson (1984) economic policy is defined as:

It is the consequent of inflation, and not the pursuit of growth and employment, which is or should be the objective of macroeconomic policy and it is the creation of conditions

conducive to growth and employment, and not the supervision of price rises, which is or should be the objective of microeconomic policy. (p.03).

Most people consider economic policy as the essence operations of a modern-day Chancellor of the Exchequer, with those acts executed on behalf of the government by the Bank of England. It focuses on taxation decisions, including the total amount and rates for individual taxes, as well as public expenditure, includes how it is distributed between programs and current and capital spending; interest rates and the expansion of money and credit; sterling's external worth and whether it is stable, floating, or planned to be part of the European single currency (Smith, 2003).

### **1.3.1.2. Areas of Economic Policy**

#### **1.3.1.2.1. Fiscal Policy**

Fiscal policy deals with ways of raising money in the state treasury and its spending. It consists of tax policy and public expenditure. At the time of inflation is often fiscal policy in the form of increased taxes and cuts in public expenditure. During the depression is applied expansionary fiscal policy in the form of tax cuts and an increase in public expenditure. (Pissarides, 2002).

#### **1.3.1.2.2. Privacy Income**

Privacy income consists of wage and price controls in a wide range of non-binding guidelines to control completely. Privacy income is less rigid and less expensive instrument of fiscal and monetary policy, but it is less efficient. (Pissarides, 2002).

#### **1.3.1.2.3. Monetary Policy**

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity. (Pissarides, 2002).

### **1.3.1.3. Types of Economic Policy:**

#### **1.3.1.3.1. Macroeconomic Policy:**

Macroeconomics is a field of economics that investigates the overall operation of the economy. Macroeconomics is the study of economic phenomena such as inflation, price levels, economic growth rate, national income, GDP, and variations in unemployment. It is concerned with the overall performance, structure, and behaviour of the economy. In basic terms, it attempts to produce a stable economic climate suitable to supporting robust and sustained economic growth, which is necessary for the production of employment, wealth, and higher living standards. Fiscal policy, monetary policy, and exchange rate policy are the three main pillars of macroeconomic policy. In short, it describes each of these policy instruments and how they may assist and support steady and sustainable growth. (Dolamore, n.d.).

#### **1.3.1.3.2. Microeconomic Policy:**

Microeconomics, as opposed to macroeconomics, is primarily concerned with the decisions made by people, families, and enterprises in decision making and resource allocation. It typically applied to markets of products and services and addresses both personal and economic concerns. It is also the study of how individuals make decisions, what variables impact their decisions, and how their decisions affect the products markets by influencing price, supply, and demand. Specifically, how these affect resource consumption and distribution. Microeconomics explains why and how various things have varying values, how individuals and firms conduct and profit from efficient production and exchange, and how people best coordinate and cooperate with one another. Its objectives are efficiency, equity, and growth. Economic growth is frequently regarded as a macroeconomic issue, although it is directly tied to the economy's micro-behaviour and the functioning of markets. (Westfall, 2022).

## **1.4. Post-War Period**

### **1.4.1. Definition**

The term post war is used to describe the period that is started after the end of the Second World War in 1945 to the current time. This period has several characteristics. To examine these characteristics, the political and economic changes that happened during this time are required to be clear. Jessica Reinisch announced that the beginning of post-war II period as:" it began on 8 May 1945 in Europe and on 15 August 1945 in Asia". ( Reinisch, n.d.).

Totally, Europe in post-war II was changed economically and politically. It recovered from the devastation of WWII, and it explained its influence in world economy and political affairs. (Ladrech and Wegs, 2007).

There are several significant events that are happened since 1945. The political developments following the breakdown of the war time alliance between the United States and the Soviet Union was the important event after WWII. The post-war history examines the inclusive political, economic, social, and cultural developments since 1945. In addition to discuss the comprehensive political and economic changes, the important issues and the crisis are required to be explored such as: the development of the welfare state, European integration and the European Union, the cold war, the rise and fall of the Soviets, the UK political-economic affairs, Suez crisis, oil crises and other several historical events. (Ladrech and Wegs, 2007).

The confusion between the post-war II and the cold war is existed. Reinisch (n.d.) states that the cold war is a term used to describe the political, diplomatic and economic relationships between the former war-time Allied after 1945, it also referred to the ideological conflict between the coalition parties. It clarifies the rivalries between the United States (US) and the United of Soviet Socialist Republics(USSR); however, the post war II era is referred to the period that it was started from the end of WWII in 1945 to the present time.( Reinisch, n.d.). The cold war is a significant event in post-war II period.

### **1.4.2. Britain in the Twentieth Century**

Although Britain gained in the second world war but there were negative aspects on Britain and her empire. Economically, Britain since 1945 was deteriorated. Dow, Polytechnic and Howlett, (1991), are agreed on the economic growth suffered from the increasing levels of taxes, the monopolistic companies; while the decreasing of manufacturing output and the imports . Also, the british economy depended on the domestic investment due to the influx of capital. In addition to the lack of competition caused the depression, the poor use of technology and the lack of funding effected the manufacturing in post-war II period.

In order to develop the economy, the british government aimed to refresh the little investment and it sought to protect the pound from the devaluation, but pound has lost its place as a global currency. In addition to the economic crises that had a negative impact on the british economy. Consequently, the levels of unemployment and inflation are high. (Dow, Polytechnic and Howlett,1991). In short, the british economy suffered from a disastrous position.

### **Conclusion**

This chapter discussed the main concepts such as Capitalism, Policy, the British Economy, and post-war II period. The epoch of modern capitalism raised during the 16, 17, 18 centuries, the global change for capitalism system seemed especially after world war two. It had been expanded from being limited in Western Europe into being global and worldwide. The United Kingdom was among the largest countries that had been affected of these radical changes in modern capitalism. It is described as an economic as well as political system where private ownership of the means of production had characterized the UK markets after WWII. The political and economic affairs in Britain post-war II were affected by the changes of capitalism system .

## **CHAPTER TWO**

### **Capitalism in Britain after WWII**

## **Chapter Two : Capitalism in Britain after WWII**

Introduction.....	<b>19</b>
2.1.The Golden Age of Capitalism in Post-War Reconstruction.....	<b>19</b>
2.2.The Evolution of Capitalism.....	<b>20</b>
2.3. The British Government and Capitalism.....	<b>21</b>
2.3.1. The Governments of Post-War Britain.....	<b>21</b>
2.3.2. The Role of Government in the Capitalist System .....	<b>25</b>
2.3.3. Privatization and the development of Capitalism .....	<b>27</b>
2.4. UK Post-war Economic Boom.....	<b>28</b>
2.4.1. UK National Debt.....	<b>29</b>
2.4.2.Inflation of the UK .....	<b>29</b>
2.4.3. Unemployment.....	<b>30</b>
2.4.4.Sources of Economic Boom .....	<b>31</b>
2.5.Brexit Impact on the UK Economy.....	<b>33</b>
2.5.1.Immediate Impact on the UK Economy .....	<b>33</b>
2.5.2. Long Term Impact on the UK Economy.....	<b>34</b>
Conclusion.....	<b>34</b>

## **Introduction**

This chapter is concerned with discussing the economic and political developments that have occurred in the United Kingdom following the end of World War II, which has been defined by an exceptional rate of economic recovery from the most devastating conflict in the history of mankind. First, it shed light on the golden age of capitalism that evolved immediately after the Second World War which was a period of economic prosperity, high levels of productivity growth, and low unemployment. Furthermore, it describes the evolution of capitalism in the British economy by marking the UK as one of the nations that had the most repairing form of capitalism. Moreover, it provides the economic and political shifts especially after the UK leaves the EU including the role of British government in repairing deteriorated economy in the post war period. Besides, the chapter deals with the economic impact of Brexit on the UK economy; it analyses s the economic consequences after the UK leaves the EU and associated with the term of Brexit.

### **2.1. The Golden Age of Capitalism in Post-War Reconstruction**

A golden age of capitalism was a period of economic expansion extending from the end of the second world war in 1945 to the early of 1970s. The post-war period witnessed an unexpected speed of recovery from the devastation inflicted; a numerous of economic recovery have run budget deficits in an effort to rebuild both housing and industry and faced balance of payment complications in the process ,particularly for those who living difficult conditions in areas that had theatres of war were horrendous. Nevertheless, the recovery in those post-war years was truly impressive and unexpected, in terms of both its speed and spread comparing the post-war one. In addition to the dire starting conditions in 1945 that were compounded by global economy, the world faced with the fattest period of economic expansion ever seen and continued until the early of 1970s.(United Nation, 2017)

During this period, a numerous of different surveys published that the recovery was accompanied by profound changed in the world economic model, including three main facts of reconstruction: production capacities, trade system, and international payments. In addition to this, the golden age of capitalism has been characterised by unprecedented growth of international trade together with the massive growth of global economy particularly in western Europe. Besides, there was a multilateral international payment system created known as Bretton woods monetary system and the implementation of Marshall Plan that marked the very beginning of successful international cooperation in the post-war period. Additionally, The Golden Age of Capitalism spanned from the end of the Second World War in 1945 to the early 1970s, when the Bretton Woods monetary system collapsed. Therefore, It was a period of economic prosperity with the achievement of high and sustained levels of economic and productivity growth. (United Nation, 2017).

## **2.2. The Evolution of Capitalism on the UK Economy**

Nowadays, capitalism has been so familiar in the UK and it is widespread to the western world. The production of goods and services is based on supply and demand side of economics in general markets. The modern definition of capitalism policy that is based on private ownership of the means of production, has characterised the UK market economy since the 16<sup>th</sup> century. However, at the beginning of 18<sup>th</sup> century the focus of capitalist development shifted from commerce to industry as the industrial revolution flourished and the factory system developed.(Mcmenemy, 2020)

Since capitalism evolved in the UK economy, the power balance shifted. The principles for purposeful business published by British academy, questioned the role of the modern corporate in society, and they conclude with that the United Kingdom has particularly extreme form of capitalism unlike other countries.(Mcmenemy, 2020).

Today, most ownership in the UK is in the hands of large number of institutional investors, as the professor Colin Mayer said: "none of which have significant power to control shareholding in our largest companies. This is unlike virtually any other country in the world, including the united state"( para. 02).This heavily dispersed form of ownership means that none of the owners can provide a genuinely long-term perspective on how to achieve goals while also making money. (Mcmenemy, 2020).

## **2.3. The British Governments and Capitalism**

### **2.3.1. The Governments of Post-War Britain**

After the Second World War, Britain has several governments. And the major governments are the Labour governments and the Conservative governments that are reciprocal since 1945. The government's aim to make a strong economy to restore the British international position that is influenced in post-war II. In short, the reciprocal governments in Britain applied the policies in order to enhance the British economy .

#### **2.3.1.1. The Labour Governments and the Welfare State (1945\_1951)**

After the Labour party won the election of 5<sup>th</sup> July 1945( Pearce,2006), it faced a difficult challenges. The war left a depleted foreign resources, "sterling credits" that should be paid, a disordered economy and ruined industries. In addition to the ending of Lend-lease law on 2 August 1945 by Harry S. Truman.(Pearce,2006). Internationally, Britain was bankrupt. In order to solve the problem, the Labour nationalized Bank of England in 1 March 1946 (Pearce, 2006). Moreover, the most controversial move of Labour was the framework of the National Health Service, when the act received royal assent on August 1 1946 (Pearce,2006), Labour government aimed to nationalize all hospitals in the country. To sum up, since labour came to the government, the recovery has started.

The economic position was disarranged during the labour period. After the nationalization of Coal, Cable and wireless in 1 January 1947, Labour government faced an economic crisis. By 1947, the loan from the United States that was supposed to last four years had been gone. The shortage of Coal in winter 1947 caused a fuel crisis, furthermore, the convertibility crisis of 15 July 1947, which was only solved by suspending convertibility in August and making cuts in public spending( Coxall and Robins ,1998). Britain was required to accept the Bretton Woods Agreement in 1949 on the world monetary system and made sterling convertible into dollars.(Pearce, 2006). A relief came with the US as a Marshall Plan for European Recovery. It was between 1948 and 1950. ( Coxall and Robins, 1998). In addition, the convertibility crisis in 1949, it was about the devaluation of the pound sterling from \$4.03 to \$2.80 that later came to be seen as a technical and necessary adjustment of the exchange rate.(Coxall and Robins, 1998).To summarize, Labour started to create the welfare state in spite of the challenges after WWII.

#### **2.3.1.2. The Conservative Governments (1951-1964)**

Winston Churchill had the premiership at the age of 77. This government was anxious to secure domestic peace. Therefore, it conciliated the trade unions, broadly, it maintained the level of social spending on health, education. It continued to scrap economic controls and finally ended food rationing in July 1954.( Coxall and Robins,1998). The Conservative government started the amendments in several domains.

The colonial economic development combined with Labour's blend of strategic retreat was maintained. Also, decolonization came to a complete halt under Churchill.(Coxall and Robins,1998). The Conservative administration focused on the defence and foreign policy. Thus, Churchill's government aims to renaissance the political position in Britain .

After Churchill's government, Macmillan was the head of the conservative government. Because of the payments crisis, Macmillan invited to the Messina for the European integration in June 1955. Britain expected that the enterprise was unsuccessful. Britain tried to undermine

the negotiations, but later it helped in the creation of the European Economic Community (EEC) with the signing of the Treaty of Rome in 1957.(Coxall and Robins, 1998). Macmillan sought to create a European Free Trade Area (EFTA) in industrial goods comprising Britain. Also, the government moved on to negotiate an industrial free trade grouping with six other countries and the EFTA, and "the Outer Seven" came into existence in July 1960. Continuing the economic problems evidenced by low growth, adverse trade balances and the recurring sterling crises that contrasted with the strong economic performance of the EEC countries. Therefore, Harold Macmillan's conservative government sought entry in 1961. The two fundamental reasons for Britain's official entry to the EEC in 1973 are: the decline in Britain's international standing and the economic downturn.(Ronek,2013). Moreover, Coxall and Robins (1998) clarified the reasons for the British integration in the EEC as the following: first, the British trade with the Commonwealth was declining while that with the EEC was increasing. Second, the rate of economic growth in Britain was lagging far behind that achieved in the six EEC economies. Third, the Commonwealth has failed to become the independent political force envisaged immediately after the second world war. Fourth, the US wanted Britain inside the Community to act as a counter poise to France and west Germany. The Conservative government aims to renaissance the economic position of Post-war II Britain.

### **2.3.1.3. Labour Governments (1964-1969)**

Several events in this period are determined by Coxall and Robins(1998) such as the National Economic Plan(1964-1967); the establishment of Prices and Incomes in 1965 that followed by Prices and Incomes Act in 1966; Comprehensive Education launched by circular in 1965. The economic events centered on the devaluation of the pound from \$2.80 to \$2.40 in 1967 after the crucial circumstances in summer 1967, and a dock strike followed by the worst-ever monthly trade deficit in October, that caused an other wave on sterling made devaluation impossible to avoid 'also the failure of application to join the EEC after another French veto in May 1967.

#### **2.3.1.4. The Conservative Governments (1969-1974)**

By 1971s De Gaulle died. Edward Heath took advantage from this occasion to request again the successful application of join the EEC; but Health was uncertain about the benefits of membership in the Community; because of the weak industry but efficient agriculture, Britain's economy was ill suited to the EEC pattern of price support and tariffs on imports.(Coxall and Robins,1998). Health believed that it was necessary for the European integration, after the collapse of Britain's imperial destiny and the weakness of the Commonwealth, for the economic merits of membership in terms of improved living standards and played down its costs. Less interventionist tack to regenerate the economy, it involved lower taxes and public expenditure, a rejection of government assistance to ailing industries, legal regulations for industrial relations and a move away from prices and incomes policy, was the pledges of Heath when he came to power. The important events that happened clarified by Coxall and Robins (1998) such as the ending of dollar-gold convertibility by the United States and hence of Bretton Woods era. By the mid of 1971, the stagnation in industrial products caused by the increasing level of inflation and the high rate of unemployment.

#### **2.3.1.5. The Labour Governments (1974-1979)**

The economic and the industrial relations were the main issues of the general election in February 1974. Coxall and Robins (1998) agreed that the labour government renegotiated the entry to the EEC for the economic perspectives. Also, Vadymivna(2005) stated that the main aim for the European integration is to create a common market. In addition, Ronek(2013) added that both politics and economics are important for emerging the new Europe but the political consideration is emphasized. To conclude, Britain acquired interest from the integration in the EEC.

### **2.3.1.6. The Conservative Governments (1979-1997)**

Britain 's Prime Minister Margaret Thatcher introduced radical changes in the economic policy. In order to regenerate the deteriorated economy in Britain post-war, Thatcher rejected the Keynesian method. This policy aimed to control inflation rather than reduce unemployment also it applied a strict control of the money supply.( Coxall and Robins,1998). As well as, the enormous privatization program adapted by the Thatcher governments on the public sector increased the capitalism system in Britain. Thus, the Conservative governments aim to recover the political economy in Britain post-war II.

### **2.3.2. The Role of Government in the Capitalist System**

Predominantly, Capitalism as an economic system is self-regulating. Scott (2006) emphasized that the actual role of government in the Capitalist system is limited to providing services and the basic public goods at low cost. The correction of deficiencies is the responsibility of the political authority i.e. government. Moreover, the changing conditions need a periodically renovation of any framework. To sum up, the prominent role of government is to provide capitalism with the fundamental frameworks.

Scott (2006) declared two mods of governmental intervention in markets. The mods are direct and indirect, also, the distinguished roles of government are administrative and entrepreneurial. The direct intervention of government in markets is noticed through such actions as seizing land by eminent domain or nationalizing a firm; whereas the government may intervene indirectly by altering the institutional foundations in which market transactions take place, for example, altering the size, shape or location of market, or altering the rights and responsibilities of various classes of economic actors, the rules of accounting, and so on. However, the indirect intervention of government can be viewed from the regulations and infrastructure of formal markets. Whereas, the administrative role of government is in assuring the maintenance of the existing system(Scott,2006); while, essential role is in mobilizing power to achieve legislative

authorization to make changes, whether in laws, schools or public health system (Scott,2006).

The table below summarizes the Governmental roles and modes of intervention.

Roles	Modes of intervention	
	Direct	Indirect
Administrative	-Operate SOE	-Enforce Laws& regulations -Maintain infrastructure
Entrepreneurial	-Take property Buy / sell / grow SOE	-Pass new laws -Issue new regulations -Build new infrastructure

**Table 2.1.** *The Governmental Role and Modes of Intervention.*

Source: (Bruce, 2006)

Coxall and Robins(1998) agreed that the post-war economic consensus was cooperation with trade unions. This proved particularly important in government's attempts to minimize inflation and to promote employment. Otherwise, the British governments since the end of world war two took an effective role in the Capitalist economy and this role was clearly used by the Conservative governments rather than the Labour governments; both major parties accepted that the post-war settlement( reform capitalism) was necessary compromise that was kept with their ideology. Also the Conservatives accepted the need for greater Market regulation to decrease poverty and unemployment. Thus, Conservative's social and economic policies, within the overarching consensus, favoured the private sector and private enterprise; from their point of view "opportunity state" rather than "the welfare state".

Conservatives supported limited denationalization, although they failed to achieve it between 1970 and 1974.They emphasized private schooling and the grammar school/ secondary modern division in the state sector; on housing, the Housing Act(1980) (Coxall and Robins,1998).

In 1983, conservatives privatized British shipbuilding . Also the privatization of Rolls Royce and British Aerospace in 1987 and between 1981 and 1985 respectively (Broadberry and Leuning, 2013). Privatization of nationalized industries, including gas(1986), airways(1987), electricity (1990), water(1990), and railways (1996) (Coxall and Robins,1998). The government's role in the capitalism system is limited thus, capitalism is a self- regulating economic system.

### **2.3.3. Privatization and the Development of Capitalism**

#### **2.3.3.1. Definition**

Thatcher applied a massive privatization program in Britain. Veljanovski (1988) defined the term Privatization as the act of transferring services or assets to the private sector. It has two phases that distinguished by Veljanovski (1988) . While the first phase, 1979-1983, involved the sale of firms, the second phase, started with the sale of Britain Telecom. The government aims to privatize the natural monopolies, water authorities, and electricity after the privatization of industries. Thus, privatization is policy that aims to renaissance the economic policy in Britain post-war.

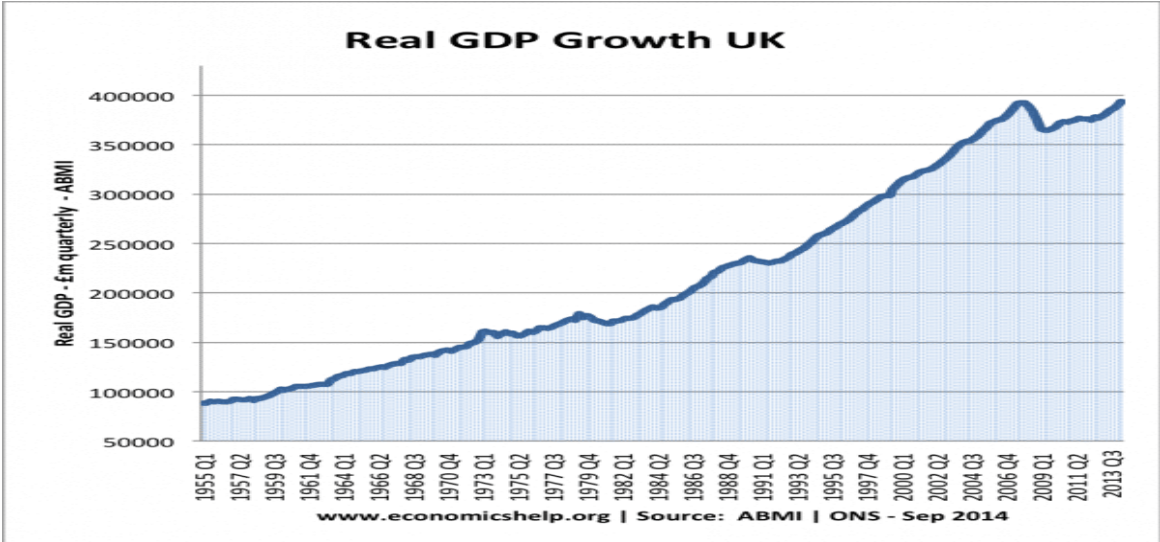
In 1979, Thatcher's government used the privatization in order to restore the nationalized industries.(Parker,2004). By 1980, the first major privatization in the UK was British Aerospace in 1981, also, Thatcher's government started to sale the stock of housing, trade sales (i.e. the sale of Rorer cars formerly British Leyland to British Aerospace in 1988).( Parker,2004). Thus, privatization policy sought to privatize on the nationalized industries.

The Thatcher program of privatization has several purposes. First, it aims to limit government's involvement in the decision-making of industry. Second, it encourages worker share-ownership in their companies, and increase competition and efficiency.(Veljanovski,1988, p.566). In short, the privatization program achieved significant purposes. Furthermore, Lloyd

and Nevala (2007) agreed on the privatization policy converted the British economy. The Labor productivity was increased, spatially the comparative industries such as Coal and Steel. Moreover, reducing prices and ameliorating service quality are the British consumer profited from both competition and privatization.(Edward, 2017). In short, the British economy was transformed by the privatization.

**2.4. UK Post-War Economic Boom**

The post-second-world-war economic boom was an area of enormous prosperity that followed the recovery period and concluded with the 1975 recession. It began in several parts of the world, including the United Kingdom, and caused unprecedented change in the British society. The graph depicts the UK's real GDP. It was less than £100,000 million in 1955. (Quarterly). Real GDP had more than doubled in a very short period of time by the early 1970s. (Pettinger, 2020).



*Figure 2.1: the UK economic boom.*

Britain faced several challenges as a result of the demise of the empire and fought to establish a new place governed by the superpowers during the cold war. As a result, there was a substantial increase in prosperity and living standards. In addition, the state and the market both played important roles in economic life. Furthermore, British economic policies include

relatively high trade barriers, capital restrictions, nationalized businesses, and countrywide range settlement rounds. Therefore, since the end of World War II, the economic boom helped the United Kingdom become a fiercely autonomous, sophisticated, and worldwide trade economy. (Pettinger, 2020)

#### **2.4.1. UK National Debt**

National debt is basically the total amount of obligations owed by the government to the private sector; it is often purchased by domestic private sector and foreign investors. Since the end of WWII, the United Kingdom has experienced the biggest crises in its history. The UK national debt has dropped approximately 203% of the total GDP rate. Following the period of post-war two, there had been a noticeable increase in national debt, and the UK substantially borrowed from the US and it continued to rise peaking at 1947 at 238% of GDP. There has seen also a period of economic growth where GDP started to fall in debt, it was due to the sustained period of economic growth and full employment, as well as the rise in inflation, which caused nominal GDP to rise quickly. This growth saw rising real incomes, which in turn led to higher tax revenues and falling debt to GDP ratios. (Pettinger, 2020)

#### **2.4.2. Inflation of the UK**

Inflation means an increase in the general price level and has the effect of reducing the value of money. It is an economic and monetary phenomenon which challenges almost every national economy in the world. Even though it can appear under various intensities and forms, it always concerns monetary authorities, because accelerating inflation threatens to destroy the economic substance of every country. Therefore, examining what determined inflation in certain period and certain country should light the reasons for such price movements and suggest a concrete anti-inflation policy.

Britain is considered one of the most developed and opened nations economically in the early years of post war two. Now, it runs inflation targeting regime, which provided monetary stability in terms of low inflation. But, this was not always the case. Indeed, the early post-war period was stable, but challenges arose in the 1970's, in terms of accelerating inflation. Paish (1968; cited in Broadberry, 1994) points out the level of demand as the most responsible variable in determining the inflationary pressure. But, coherent monetary and fiscal policy followed, and inflation rate got down and remained stable until today. (Petreski, n.d.).

The post war period was marked by Britain's golden age due to the accelerating of inflation in that period resulting to destroy the well-established economic climate. Therefore, considerable research has been made to find out and clarify the role that a number of factors played in determining the inflationary process. The inflationary pressures in every country can be defined by the money growth, the same for united kingdom. Nevertheless, the efforts made by monetary policy were not able to determine the real reason of inflation. However, many studies have been conducted to examine the main reasons for inflation in Britain. For instance, Benati (2004) considers this relationship for Britain, and for the period that is examined in this section, found strong linkage. Indeed, the assumption that money growth was a determinant of the inflation in the 60's and that caused the accelerating inflation rate in the 70's seems to be appropriate. It might be unexpected, but the evidence (Nelson and Nikolov, 2004) shows the contrary. According to these economists, the main reason for misunderstanding the significant inflation rate in Britain in this period is due to the efforts to attach a primary role to the monetary policy in controlling inflation. (Petreski, n.d.). Therefore, monetary policy was not meaningful in explaining the inflation in Britain.

### **2.4.3. Unemployment**

Unemployment in the United Kingdom is one of the European success stories. Starting in 1993, when it stood at 10.3 per cent of the labour force, it came down to 5.1 per cent in 2002.

The beneficiary was employment. The percentage of the working a population employed since 1993 has raised in every year, from 70.4 per cent in 1993 to 74.7 per cent in 2001. The labour force changed very little, from 78.5 percent of the working age population in 1993 to 78.7 percent in 2001. Moreover, both sexes and all ages participated in this employment gain. (PISSARODES, 2003).

The recent history of UK unemployment is a success story, essentially because the reforms of monetary policy that took place after 1993, combined with the decline of trade union power, removed the inflation constraint from a prolonged expansion in real aggregate demand. There is some evidence from growth accounting calculations that they also contributed independently to output growth but it is doubtful whether in themselves they have been a significant driving force of employment growth. It is more likely that they enabled a larger fall in unemployment in the face of rising aggregate demand than that experienced under the regimes of the 1970s and 1980s. Therefore, the decline of union power and the reforms to monetary policy that took place in 1993 and 1997 allowed unemployment to fall without causing big wage demands and inflation. (PAISSARIDES, 2003).

**2.4.4. Sources of UK Economic Boom**

**2.4.4.1. Demand Side**

	Growth rate	Contribution to growth	Dhare of GDP%
Consumption	1.6%	69%	63%
Government	0.5%	21%	24%
Investment	0.3%	15%	14%
Net trade	-0.1%	-5%	-1%
Total	0.3%	100%	100%

*Table 2.2. Average Annual Contributions to UK GDP Growth 1990-2008 in Constant Price.*

About 2/3 of the growth in demand was accounted for by consumption over the past two decades. UK consumption tends to also account for around 2/3 of GDP. The share of Government also increased notably over this period.

Business investment as a percentage of UK GDP increased from 1990 to 2008, although at a slower rate in G7 peers. This number only tells half of the story since it ignores the quality of company investment (its contribution to growth) or intangible investment, which is currently greater than physical investment. (BIS, 2011). The UK economy, which is built on services, invests in intangibles more than many of its rivals. (BIS, 2011).

Since the late 1970s, the UK has run a net trade deficit, and net trade has contributed significantly less to GDP in subsequent decades. While a trade deficit decreases demand, it is not always detrimental to long-term growth. Imports are a major channel for profiting from productivity advances, and relocating investment outside to more productive regions can result in net capital account benefits. (BIS, 2011).

#### **2.4.4.2. Supply Side**

##### **2.4.4.2.1 Sectoral Shares**

In common with several other advanced economies and some emerging economies, the UK economy's structure has shifted from manufacturing to particularly knowledge-based services, with the share of Business, Financial, and Professional Services in GDP rising from 15% in 1992 to 22% in 2008, while manufacturing fell from 21% to 12%. When looking at sectoral employment shares during the same time period, a similar trend appears. At the aggregate level and in a wide range of sectors, UK labour productivity has been lower than that of leading countries such as the United States, France, and Germany. (BIS, 2011).

#### **2.4.4.2.2 Regional Balance**

The overall picture is one of imbalanced growth, with London and its surrounding regions rising more than a half-point faster than the rest of England since 1989, continuing a forty-year pattern. Regional growth imbalances, on the other hand, are common in most nations throughout the world. (BIS, 2011).

#### **2.4.4.2.3 Driver Contributions**

Growth accounting systems try to deconstruct growth into contributions from the key drivers growing labour and capital inputs, as well as total factor productivity, allowing for international comparisons. 16 Growth accounting comparisons<sup>17</sup> for 1995-2004 revealed that the UK's productivity difference with France and Germany was caused by lower capital investment per worker, whilst the gap with the US was caused by lower TFP (Total Factor Productivity). Accounting for growth from 1997 to 2007 using a similar technique but separating ICT from non-ICT investment revealed considerable changes in this growth mix. (BIS, 2011).

### **2.5. Brexit Impact on the UK Economy**

The Britain's entry within the EU has raised a debate on whether the United Kingdom should stay a member in the EU or leave: some were against the attachment of being a member in EU and this unity would weaken the UK sovereignty among its neighbours. Others claimed that joining the EU would make the UK more powerful and would gain a lot of benefits that cannot be denied. thus, this aggressive conflict ended Britain decision to exit from the EU which lastly known as the Brexit (23june,2016).

After the United Kingdom leave the EU, there has been a considerable number of changes evolved in the UK particularly in the economic side which had seen a slowing down unlike many business institutions that had moved their headquarters to the EU. Generally, any country in the

whole world based on its GDP and GDP per capita to rate its economy growth. The following element explain the Brexit impact on the UK economy:

### **2.5.1. Immediate Impact on the UK Economy**

The result of the referendum of the Brexit led to the UK inflation by 1,7% in 2017. Also, the financial markets have seen a sharply weaknesses in the sterling exchange rate (Breinlich et al, 2019) which made the UK imports more expensive unlike previous years. Hence, the UK consumer prices had raised by 1,7%. In addition to that, the results of previous research published in November 2017 suggested a loss of 1.3% of GDP near to £300 million per week since the vote of Brexit takes place. OECD mentioned in their data that the production might loss rising to be almost 4% of GDP by the end of 2020. (Benjamin, 2019).

### **2.5.2. Long Term Impact on the UK Economy**

The Brexit basically had negative impact on the UK economy particularly in its trade, which slowly led to the raise of trade costs. Besides, the loss of exports to direct foreign investors continued to hit the export capacity especially in manufacturing and financial services. In addition to that, the UK became one of the largest share of FDI inflows in the EU, and that position has increased in the UK for both EU and non EU investors. Thus, the increase on trade integration of the UK with EU reinforced its comparative advantages.

The changes that occurs on the UK economy after long term impact of Brexit led to the reduce exchange openness, and both management quality and R&D intensity which resulted a long run supply that had a strong effect on the total factor productivity (TEP).

## **Conclusion**

This chapter clarified Britain post-war II economic position especially at the Golden age of capitalism. Therefore, the political economy of capitalism in which the role of the British government was to make decisions for repairing the deteriorated economy after the Second

World War; however, the privatization policy that applied in Britain in order to control and organize the British economy. To summarize, the British economic policy aims to refresh the economy in post-war Britain through the application of a massive privatization program.

## **CHAPTER THREE**

### **The Impact of Capitalism on the British Economy After the Second World War**

**Chapter Three :The Impact of Capitalism on The British Economy After the Second  
world War**

Introduction.....	35
3.1. The British Economy After the Second World War .....	35
3.1.1. Agriculture .....	35
3.1.2. Manufacturing .....	38
3.1.3.Trade.....	39
3.1.4.Inflation.....	42
3.1.5.Unemployment.....	44
3.1.6. Sterling(the Rate of Exchange) .....	46
Conclusion.....	49

## **Introduction**

The 1920s and 1930s were difficult years not only for Britain, but for the entire world. Growth slowed in virtually every industrial country. Every market economy was affected. The 1920s were marked by political disputes and inflations that destroyed economic expansion throughout Europe, including the business cycle depression of expected depth and duration known as the Slump in Britain. Thus, the interwar period was a story of transition for Britain from the world's leading creditor nation to a country that was overtaken in terms of per capita income, productivity, and growth rates by many of its European competitors. As a result, it was a story about how Britain lost the economic dominance among its neighbours.

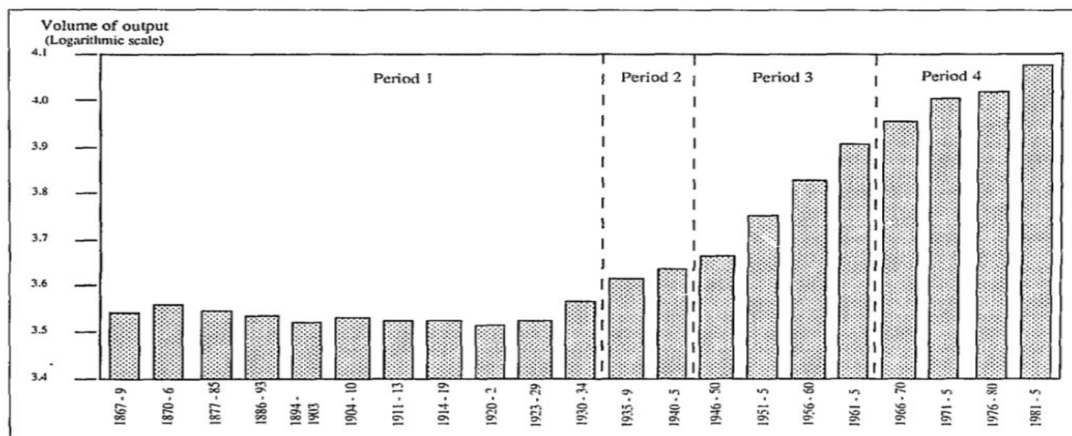
This chapter investigates the British economy before and after the Second World War. It contains a comparison between the most notable variations in the UK economy that have been influenced by the two war eras, which gradually made the UK powerful in the world economy. It also provides substantial information on the impact of capitalist policy on the British economy since the Second World War ended.

### **3.1. The British Economy After the Second World War**

The interwar period was marked by a turning point for the British economic policy-making, particularly in terms of trade policy. Since the 19th century, Britain became more worried about its position in economic power since it was suffering from loss of productive resources, capacity, and change in the international trade and finance that persisted until the end of WWII.

#### **3.1.1. Agriculture**

The British economy depends on the agricultural sector. After the Second World War there was a varied level in the agricultural output in Britain. Figure 3.1 below explains the agricultural output before and after WWII.



**Figure 3.1.** Changes in the Volume of Agricultural Output in Britain, 1867-1985

Source: (Brassley,2000, p.62).

The British output in agriculture has increased gradually since 1945. The fast growing in the British agricultural output is the result of the British policy that applied on the agricultural sector after the Second World War. The British governments give more attention to the agricultural products in order to supply the country with the agricultural products and to decrease the agricultural imports. The British government legislate the agricultural Act in 1947, that sets the basis of post war settlement for the British farmers, the results of this act was high volume of agricultural output from 1947 to 1965. As well as, the British privatization policy that applied in the agricultural sector assessed the increasing level of the agricultural output in Britain with a little less land, much less labour and much more capital ( Brassley,2000). The increasing level in the agricultural sector was the result of a successful economic policy after WWII.

The rapid growth in the agricultural sector related to the mechanism used by the British government. It was the initially paid directly through the exchequer also the war time controls were lifted by deficiency payments ( BOWERS, 1985). This strategy applied on the main products that constituting 80 per cent of gross output such as cattle, sheep, milk, eggs, barley, wheat, oats, rye, potatoes, sugar beet, and wool. Also, other products are by a variety of trade measures, mainly general and seasonal prices. The impact of technology on the annual

agricultural review seemed in increasing both land and labour productivities. Table 3.1 below represents the annual rates of growth, the volume is decreased gradually after the WWII. Thus the main aim of annual reviews was to emphasize the self-sufficiency in post-war II.

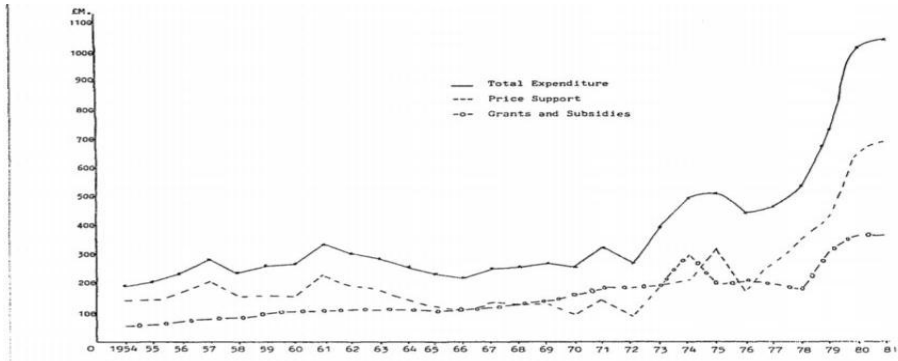
	<i>% per annum</i>
1870–1935	0.01
1935–1945	0.5
(1935–1965)	(2.3)
1946–1965	2.8
(1946–1985)	(2.3)
1966–1985	1.4

*Source: for output volume figures, see table A4; the calculation of annual rates uses the method described in R. Floud, An introduction to quantitative methods for historians (2nd edn, 1979), pp. 94–5.*

**Table 3.1.** Annual Rates of Growth in the Volume of Agricultural Output.

Source: (Brassley,2000)

Furthermore, the public expenditure in Britain post-war II was increased. Since 1954, there are a quietly increase in the levels of public expenditure; however, in 1976, there was a significant expenditure in the agricultural sector, it had high levels. It was the result of the economic policy that was applied also it affected by the shift towards free market policy. In short, the high level of public expenditure agricultural support reflected the importance of the economic policy applied in the agricultural Sector in Britain post-war II.

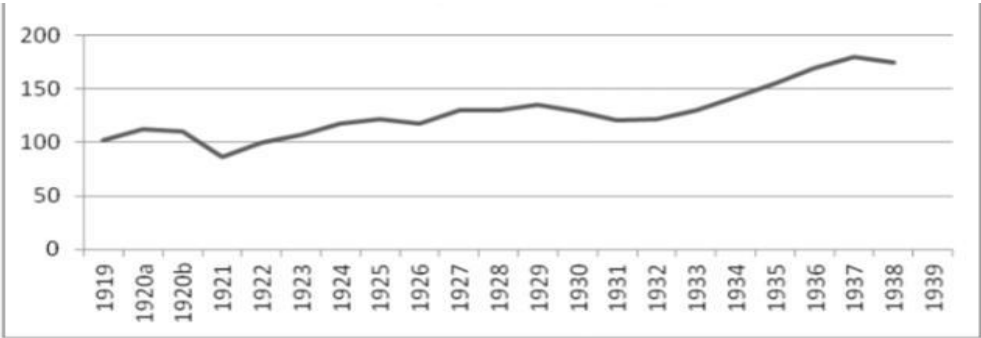


**Figure 3.2.** Public Expenditure in Agricultural Support (Current prices).

Source: (BOWERS,1985).

**3.1.2. Manufacturing**

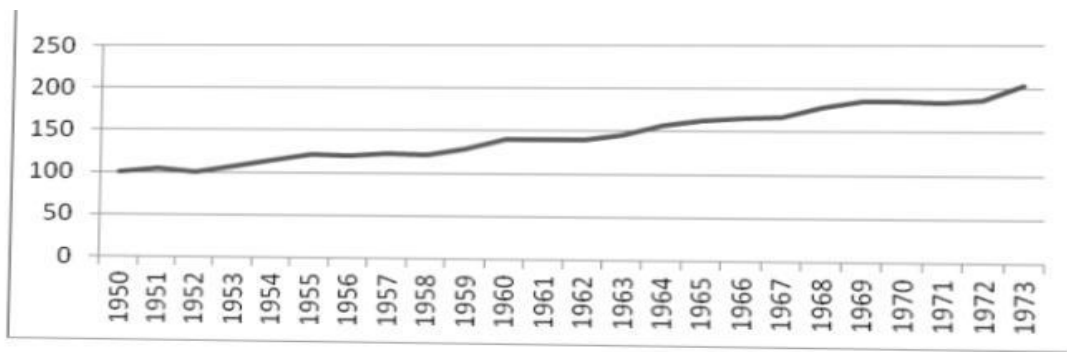
The age of uncertainty was started from 1919 to 1939. The manufacturing output was affected by several events. During this period, the two major recessions happened that influenced the industrial sector before the WWII (Kiston and Michie, 2014) . Figure 3.3 and figure 3.4 show the growth in output and productivity in (1919-1973).



*Figure 3.3. Manufacturing Output 1919-1939,(1922=100).*

Source: (Kiston and Michie, 2014)

The overage annual rate of manufacturing output was 2.8% during (1920-1939). The recession of 1920-1921 affected the manufacturing employment, it was decreased by 0.2%. Also, the great recession that happened during (1929- 1932) caused a reasonable decline. Despite the manufacturing increase, it emphasized the grow up of productivity and not the job's increase. The age of transition was started from 1950 to 1973. It is known as the golden age, the inflation and unemployment were low. Also, it is a transition period for the manufacturing sector. Thus, the productivity was increased while the manufacturing was decreased. As figure 3.4 shows the output after the WWII.



*Figure 3.4. Manufacturing Output 1950-1973, (1950=100).*

Source: (Kiston and Michie, 2014)

The reduction in manufacturing was caused by the limitation of capital equipment in Britain. The involvement of state in the industrial policy affected the manufacturing negatively (Kiston and Michie, 2014). It created an injurious policy that included the nationalization and supporting failed companies. In addition, the incoherent industrial policy affected the manufacturing productivity by the lack of effective competition. Not only the British economy, but also the world economy suffered a major shock in the 1970s. The manufacturing output was decreased; however, the productivity was increased. As a result, the deindustrialization started soon in UK then the competitor countries; the government's intervention was reduced and free market policy was preferred. To sum up, the British intervention in the industrial policy affected the manufacturing alternative perspective in Britain post-war II.

### **3.1.3. Trade**

Since the 19th century, Britain became more worried about open trade and free market policies as it led to large trade deficits and deflationary impact on aggregate output and unemployment. During this period, there was a numerous policy debate in Britain about how to stop the rise of trade deficits as well as how to manage the volume of imported goods. Thus it is important formally to evaluate the determinants of the British imports in the interwar period.

For many decades, Britain had been the most successful country both economically and politically, always seemingly a step ahead of the other nations of the world. However, after the

First World War Britain started the process of rebuilding just like other European countries. As the annual data indicates, trade was the first victim of the world (Horsewood, Sen & Voicu, 2008).

	Value (£m)			Volume (1938=100)		
	Imports (Cif)	Exports	Re-exports (Fob)	Imports	Exports	Re-exports
1919	1626	799	165	73	95	129
1920	1933	1335	223	92	123	148
1921	1086	703	107	60	86	129
1922	1003	720	104	70	119	133
1923	1096	767	119	77	129	141
1924	1277	801	140	86	132	159
1925	1321	773	154	89	130	155
1926	1241	653	125	93	117	135
1927	1218	709	123	96	134	141
1928	1196	724	120	93	137	137
1929	1221	729	110	99	141	132
1930	1044	571	87	96	115	126
1931	861	391	64	99	88	120
1932	702	365	51	86	88	106
1933	675	368	49	87	89	99
1934	731	396	51	92	95	99
1935	756	426	55	92	102	103
1936	848	442	61	99	104	102
1937	1028	521	75	105	113	106
1938	920	471	61	100	100	100

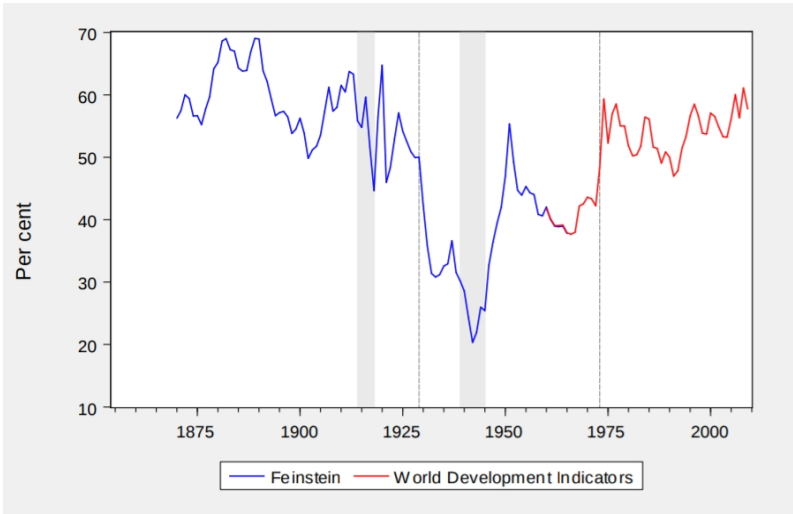
*Table 3.2. UK Trade in the Inter-war years, by Value and Volume 1919-1938*

Source: Capie (1983)

As shown in the table, trade volumes contracted considerably during the interwar period, particularly on the exports side. Since the UK industry was centred on war efforts, the outside markets were lost and not fully recaptured in the 1920s. Although the volume of exports remained high during the early and mid of the 1920s, it did not increase in line with expanding world trade. The decline of international trade in the wake of the exports which fell precipitously after the 1920s. The trade deficit was as much as a product of falling exports and declining competitiveness as it was about tariff protection. During the decades of 1920-31 the imports rose continuously until the

fall in GDP and the impact of the general tariff produced a large decline in the volume and value of imports until 1930 (Horsewood, Sen & Voicu, 2008).

In the early years of second world war , Britain's trade deficit continues to grow as exports decline and it emerged from the war stripped of two-third of its exports trade. It has nothing to exports and no way to pay for imports. Besides the independence of India marked a retreat from the empire that forces an adjustment to new trade (O'Rourke, 2012).



**Figure 3.5.** Trade in Goods and Services(imports+exports) as Percentage of GDP

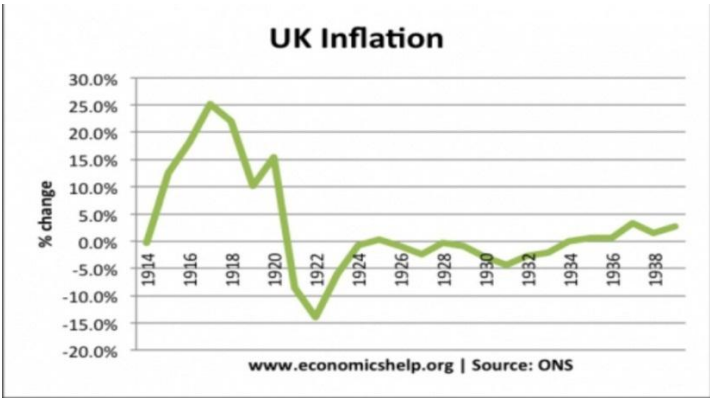
Source: Feinstein(1972), tables3,15;world bank(2011)

Figure 3.5 shows the volume of exports and imports of goods and services in GDP between the years of 1870 and 2009. The period of two wars are shaded and the period of Great Britain (1929) and Oil crises(1973) are marked with dotted lines.as plotted above, the late of 19<sup>th</sup> c sow a very high levels of trade in Britain representing for nearly 60 per cent of GDP. Again there was a post war recovery until 1951 when the share of trade reached 55 per cent of GDP, a gradual decline through the mid of 1960; a sharp increase following oil crises, presumably reflecting the increased price of oil, ended during the 1980s (O'Rourke, 2012). To sum up, the late of 19<sup>th</sup> century was the high water mark for Britain's trade engagement with the rest of the world. There followed a period of disfiguration during the interwar period, and reintegration after WWII.

**3.1.4. Inflation**

Throughout the pre-world-war II experience, the UK economy suffered from the loss of productive resources, capacity and change in the structure of international trade and finance. In 1919, increased consumer demand caused inflation and price boom. indeed, high debt ratios were an important factor in inducing deflationary post-war monetary policies in the United Kingdom. Post 1920, the UK experienced a decade of deflation and stagnant growth. However, the post-world war two was marked by Britain’s golden age due to the acceleration of inflation in that period particularly in 1970s, which destroyed the well-established economic climate. By 1970, inflation in the UK was accelerating to over 20% due to the rising wages, inflationary budget, growth in credit and consumer spending and oil crises (Pettinger, 2017).

Historically, the 1920s was a period of great depression for the UK economy due to the depression deflation and a steady decline in the UKs former economic pre-eminence. The United Kingdom experienced a decade of deflation and stagnant growth as it related to Gold Standard. This stagnation increasingly continues to 1930s where the UK economy was still further hit by the sharp global economic downturn which, of course, led to an increase in unemployment and deflation (Pettinger, 2017).



*Figure 3.6. The UK Inflation since 1920s*

Source: (Pettinger, 2017)

Figure 3.6 shows that between the years 1930 and 1932, the UK had a serious deflation problem due to the Gold Standard which led to an overvalued exchange rate. Indeed, when there are falling prices, people are discouraged from the process of purchases because they will be cheaper in the future. Therefore, periods of deflation mainly lead to lower consumer spending and lower economic growth which in turn creates more deflationary pressure in the economy. Also, an increase in real interest rates in the UK economy leads to lower growth and high deflation due to tight monetary and fiscal policy and overvalued exchange rates.



Figure 3.7. The UK Inflation since 1970s

Source: (Pettinger, 2020)

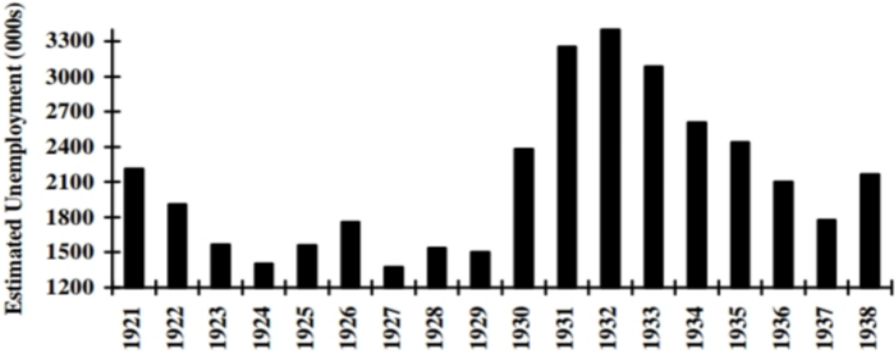
However, the UK economy experienced a strong growth with moderate inflation after the Second World War. Graph 06 data indicates that inflation was rising to double figures and reaching over 25%. This high rate of inflation caused by oil prices and rising wages. Unions were relatively powerful in order to keep rising the cost of living caused a wage inflationary spiral.

**3.1.5. Unemployment**

World war one causes irreversible consequences on the British economy since it experienced the most severe crises in the modern era after 1920s which cause an unemployment problem that persisted until post war II. The war affected the British exports market that means the UK lost

most of its surplus exports, and the production of new technologies distributed the competitiveness of UK export products. After the First World War, the British government attempted to restore the old currency ratio. Indeed, changes in the working hours together with increasing wages had been intensified unemployment, and most of old industries are mainly suffering from high rates of unemployment centred in certain regions even though London had the most developed and opened economy in the country. (BUTCHART, 1997).

Even though in 1920s Britain experienced a serious problem of unemployment with an average ½ million out of work, the 1930s witnessed the most severe crises that reached a peak of 3.4 million in 1932 as shown below



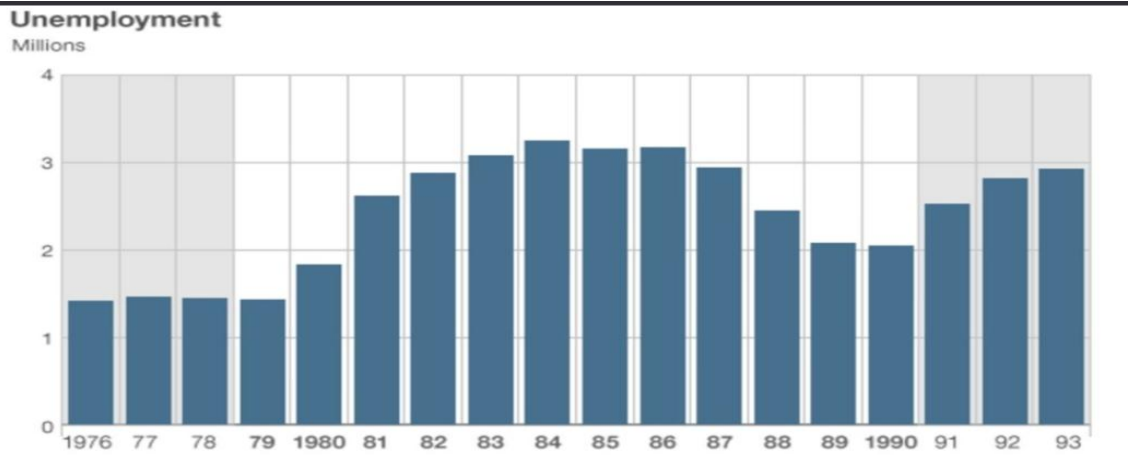
*Figure 3.8. Interwar Unemployment*

Source:(C. Feinstein, National Income, Expenditure and Output of United Kingdom )

A first potential explanation for why unemployment appears too had been higher during the 1920s is that Britain loss the surplus in exports during ww1 which accounts for high UN employment in the old engineering industry. Also, British governmental policy is mainly retuned to gold standard and in particular, the decision in 1925 to return to the power level of \$4.85 which means that the UK exports were overvalued, and also monetary policy had to be kept tighter than necessary. Moreover, the structure of the British labour market is changed especially among those old industries. Working hours are reduces from 9 to 8 hours a week, productivity is decreasing because of a reduction in working time. In addition to the working hours, the impact

of governmental deflation policy with the world war one influenced in exports market causes high rates of unemployment and fail to solve the regional and industrial unemployment that persisted long term unemployment through the interwar period. Besides, the unemployed labour usually has unmatched skills, and they had low mobility in addition to the downturn due to concentration in old exports industry in those areas until the outbreak of world war two where government could not cover this problem and continued to 1970s.(BUTCHART, 1997).

Following the decades of Second World War, the unemployment issue lasted increasingly due to the British model performance set during that period since most of the companies started to restricting and modernising their businesses.



**Figure 3.9.** Unemployment in the UK in Post war

Source: ONS.

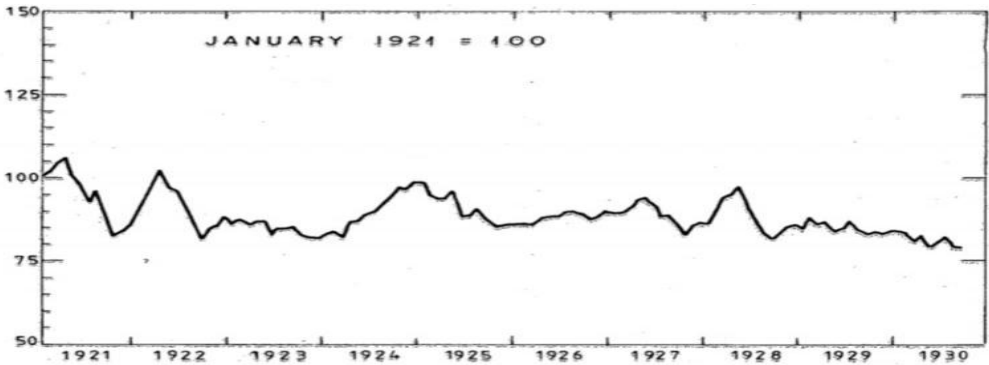
After the 1973-74 oil prices shock the UK economy went into recession, causing high rates in unemployment. Then, it rose even further during the 1980-81 which proved more persistent because of the structural unemployment. But, it picked up rapidly after the conservatives took power in 1979, that reached to over 3 million out of the work in 1983 as plotted in figure 3.9, it hit its hardest in northern Ireland where one five people was out of work in 1980 with areas like northern England and Scotland. Later on, United Kingdom witnessed an unprecedented speed of

economic boom during the post war period that helped to bring unemployment down, though it was a slow process. (Pettinger, 2021).

The misery the unemployed in Britain fuels the profits which keep the capitalist economy going and made it an essential part of the system. Thus it was a consequence of endless drive of capitalism towards increasing profits.

**3.1.6. Sterling (The rate of Exchange)**

The pound sterling was the main international coinage until 1914, when the most of developed countries connected their currencies in to gold in order to create stability in their currency exchange. Because of the interest rates, the Bank of England was, unofficially, in charge of the international gold standard. In 1919 Britain had to relinquish the gold standard, the bank accounts of international merchants who then traded in sterling pound were destroyed, at that time sterling has lost its value as a global currency.(Teslya and Podolskaya, 2020). In addition, the levels of sterling exchange rates were wavering before and after the Second World War. In short, pound sterling suffered a deteriorated position in Britain post-war II. Figure 3.10 presents the levels of exchange Rates before the WWII.

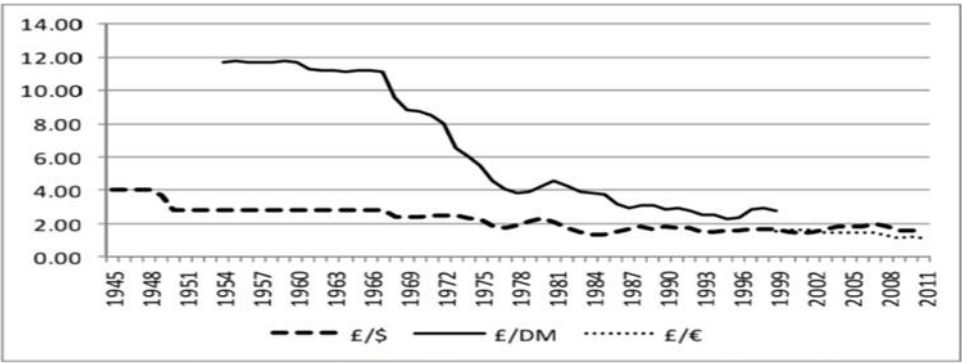


*Figure 3.10. Real Sterling /Dollar Exchange Rate, United Kingdom.(1921-1930).*

Source: (Teslya and Podolskaya, 2020).

After the First World War, the nominal appreciation of the pound was the result of the adoption of a floating exchange rate regime by Britain and many other countries. ( Solomou and Varies, 2005). The real exchange rate is above the 1913 and the level appreciates further during 1920-1921. The real exchange rate remains over valued in 1924 and appreciates further in 1924-1925. The increasing of rate of exchange was the result of speculators pushing up the currency in the belief that Act of Parliament suspending the gold standard was due to expire in 1925, and it was politically unlikely that the act would be extended beyond 1925.

In contrast, after the WWII, sterling and the rate of exchange faced several problems that controlled it whether positively or negatively. The negative influence on the rate of exchange summarized in the following: the Stock Market Crash in 1987 and the Petrol Crises in 2000 that the levels of rate decreased by 2% from the previous level. The unexpected negative information about the standing has negative effect on exchanging rate changes and it caused a weaker pound on international currency markets. The rate of exchange related with the results of elections, thus the unfixed results of elections caused the increasing level in the rate of exchange.(Teslya and Podolskaya, 2020). Figure 3.11 shows the pound renunciation since 1945.



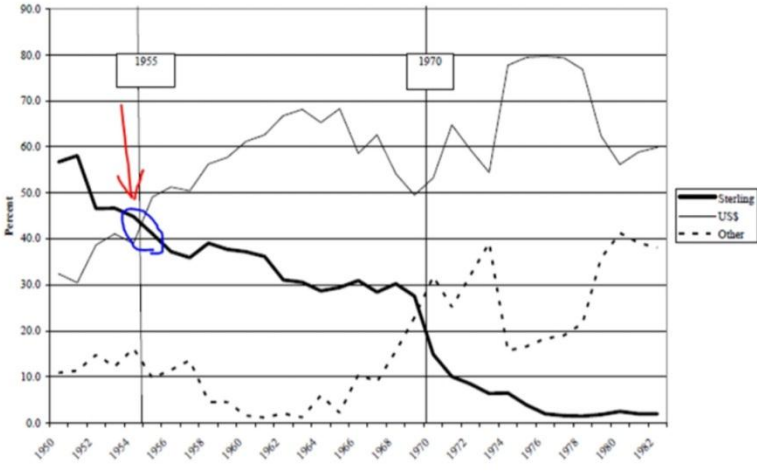
Sources: Broadberry (2002); <http://www.oanda.com/currency/historical-rates/>

**Figure 3.11. Sterling Exchange Rates (Foreign Currency Units Per Pound).**

Sterling has two major crises. The first crisis was in 1964, because of the political position of the labour government where the necessary measures were avoided and sever deflation with the

possibility of devaluation. In this crises, a wave of speculation against sterling in the financial markets and the decision of devaluation the currency was taken in labour period, sterling decreased from (£1 = \$ 4.03) to (£1 = \$2.80) that happened previously over the last sterling decreased that was in 1949. While the second crises was in 1967. The rate was changed twice and the sterling decreased from ( £1=\$ 2.80 to £1=\$2,40). However, the economic recession in (1991-1992), the government sought to maintain the pound value.( Broadberry and Leunig,2013).To summarize, pound sterling was a decadent after WWII. It suffered the devaluation throughout the post-war I and Post-war II. As a result of the significant reduction in pound, the British government pegged the value of the pound and the US dollar was the leading reserve in the world.

The figure 3.12 shows that the year 1955 is the actual point of changing position, between USD and pond sterling.



**Figure 3.12.** Currency Distribution of Foreign Exchange Reserves (1950-1982).

Source: (Teslya and Podolskaya, 2020).

**Conclusion**

This chapter discussed the impact of capitalism on the British economy. The study focused on the peelers of the British economy such as Agriculture, Manufacturing, Sterling (the rate of exchange), Trade, Inflation, and Unemployment. In order to investigate the effect of capitalism

in post-war II, the study compared the British economy in pre-war II and Post-war II period. In short, from studies conducted in this chapter, the effect of capitalism on British economy appeared in post war two.

## **General Conclusion**

The present research investigates the impact of capitalism policy that applied on the British economy especially after the Second World War.

In order to synthesize the major studies related to the topic of the research, it has been reviewed with the related literature. The first chapter presented the definitions of the concepts that were used as key terms in order to assimilate the topic. The second chapter discussed post-war II Britain and the intertwining of capitalism and the British governments since 1945, also the integration of capitalism policy on the British economy. The last chapter provided a corpus analysis that it proved the hypotheses and answered the questions.

For the purpose of conducting this research, we asked five questions. The first question enquired on the British policy assisted the economic growth in post-war Britain. The second question tried to discover whether the British boom was the result of the capitalist policy after WWII. The third question asked about the events of the Second World War increased the capitalist efficiency in UK. The fourth question enquired on capitalism that provided by political authorities of UK policies. The fifth question examined the creation of popular capitalism assisted the economic growth in Britain post-war. Following the previous questions, five hypotheses are formulated. Hypothesis one linked between the application of capitalism policy and the British economic growth after WWII. Hypothesis two linked between the British boom after the WWII and the capitalist policy in Britain. Hypothesis three linked between the events of WWII and the capitalist efficiency in UK. Hypothesis four linked between capitalism and political authorities in UK. Hypothesis five linked between the popular capitalism and the economic growth in post-war Britain. For the sake of obtaining accurate answers and testing the hypotheses, the several data was collected from books and documents. In the analysis of the collected data, the corpus based method and contradiction approach were combined. The findings of the research revealed that capitalism affected the British economy. The impact

appeared in Agriculture that was increased in post-war II, while, the manufacturing decreased comparing with the competition countries, however, the productivity increased in post-war II. Sterling pound also affected by capitalism especially after WWII where it is devaluated and the US dollar became a global currency. Inflation that was increased rapidly after the Second World War. In addition to the Unemployment rate was high, as a result of the rise of the private sector after the application of privatization policy by the British government after the Second World War, while Britain's Trade was deficit after WWII. By Investigating and discussing capitalism and its influence on the British economy, the study outcomes were the great effect of capitalism appeared in what is known as the golden age, this period reflected a high growth in the British economy, and also, it indicated the role of British governments in the capitalist system. Its role was only to provide public services such as securing the external defence, internal security guarantee, achieving justice and imposing order. The principal goal of capitalism was to achieve the maximum profit possible by increasing revenues and reducing expenses to the minimum possible. Moreover, the conservative government enacted the privatization policy that created a popular capitalism in which it increased the capital. Therefore, it assisted the British economic growth in post-war II.

To summarize, the impact of capitalism policy on the British economy had an implicit effect. The study aimed to understand the real relationship between the government and economy, in addition, it attempted to perceive the integration role between the government and the economic policy in Britain post-war II. Thus, the hypotheses that were formulated regarding the relationship between: the British boom and the capitalism policy, capitalism and political authorities, popular capitalism and economic growth, have been confirmed. After going through the analysis of data, it was perceived that the capitalism policy was deeply influenced the British economy after the Second World War. Even though, it had not restored to its full strength and had failed to reclaim its pre-war status as a worldwide economic power since colonialism's demise.

In general, investigating the impact of capitalism on the post-war II British economy is a wide topic to be examined in limited research, the current study focused on the paramount events that emphasized the capitalist effect on the British economy after the Second World War.

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غيرت الحرب العالمية الثانية على مر التاريخ (1939-1945) العالم بأكمله بعدة طرق من شأنها ان تزيد من صعوبة العودة الى امتداد العولمة في الفترة التي سبقت عام 1945 خاصة بالنسبة للاقتصاد البريطاني الذي تدهور في الفترة التي عقبها الحرب. شهدت فترة ما بعد الحرب العالمية الثانية توسعا اقتصاديا لم يسبق مثله في الاقتصاد العالمي ، مما ادى الى ظهور مرئي في تطور الرأسمالية المعروفة باسم العصر الذهبي في جميع أنحاء اوروبا، وكان لهذه الحركة تأثير كبير على الاقتصاد العالمي خاصة فيما يتعلق بالاقتصاد البريطاني. يحاول هذا البحث تسليط الضوء على السياسة الرأسمالية و تأثيرها على الاقتصاد البريطاني. تركز الدراسة قيد التحقيق على اقتصاديات فترة ما بعد الحرب العالمية الثانية و لهذا السبب تم استخدام النهج القائم على المدونة من اجل تحليل البيانات التي تم جمعها من الكتب التاريخية، المجالات، المقالات و مواقع الويب الأكاديمية. من خلال تحليل الاحداث التاريخية و الوضع السائد قبل و بعد الحرب العالمية الثانية، تكشف هذه الدراسة ان الاقتصاد البريطاني شهد نموا اقتصاديا واسعا ساعد في رفع سياسة الرأسمالية في المملكة على الرغم من انها كانت عملية بطيئة خلال فترة ما بعد الحرب .

**الكلمات المفتاحية :** الحرب العالمية الثانية، الاقتصاد البريطاني، الرأسمالية، سياسة، ما بعد الحرب.