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## Britannia redux

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**The birthplace of globalisation in the 19th century is coping well with the latest round, writes Merrill Stevenson. But can it keep it up?**

To thee belongs the rural reign;  
Thy cities shall with commerce shine:  
All thine shall be the subject main,  
And every shore it circles thine.

"Rule Britannia", Britain's unofficial national anthem dating from 1740, celebrated not only Britain's military might but its commercial prowess as well. A century later Britain had fully risen to the advance praise. This was the high-water mark of its influence in the world, which coincided with the last great wave of globalisation. The first country to industrialise, Britain was soon turning out more than half the world's coal, pig-iron and cotton textiles. In 1880 its exports of manufactured goods accounted for 40% of the global total, and by 1890 it owned more shipping tonnage than the rest of the world put together.

Less than a century on from those glory days Britain had become the "sick man of Europe", infamous for wild swings in inflation and growth and for confrontational trade unions. Shorn of its empire and a late and reluctant arrival in the European Community, Britain was grappling with the prospect of irreversible decline.

Now its fortunes are looking up again. Steady economic expansion for the past 14 years has pushed its GDP per head above that of France and Germany. Its jobless figures are the second-lowest in the European Union. Inflation has been modest, and sterling, the Achilles heel of governments from Clement Attlee's to John Major's, is if anything too strong for Britain's good.

Much of this transformation is due to a quarter-century of profound policy change at home. The Conservatives in government tamed the unions, freed financial markets and unloaded a host of state-owned enterprises. A wrenching decade resulted in a more flexible and competitive economy, though also a more unequal and less cohesive society. A Labour government under Tony Blair sensibly built on its predecessors' work but tried to combine free markets with social justice.

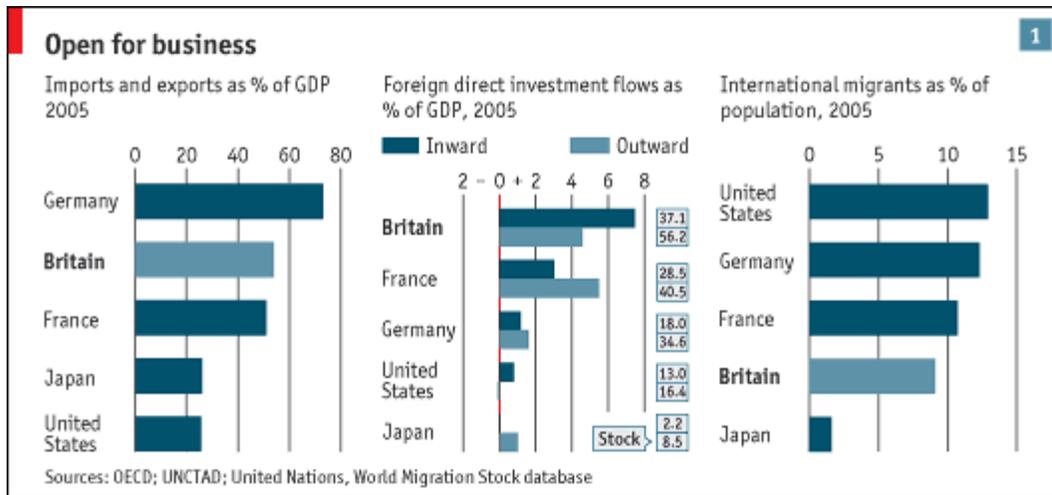
Yet globalisation too has played a big part in defining the Britain that is emerging now. Barriers to the free flow of goods and services, labour and capital are being pulled down around the world, aided by huge improvements in communications and transport. Most countries are embracing market capitalism, including titans in the developing world. It is not just their tennis shoes and computers that are conquering the globe but, increasingly, their software and services, and indeed their capital. Most important, perhaps, they have vast pools of relatively cheap and increasingly skilled workers who put pressure on jobs and wages in rich countries.

Allied with technology, globalisation increases competition and exposes inefficiency. It tends to lessen inequality among countries and increase it within them. In short, though the overall effect is positive, there are losers as well as winners.

Britain's response to all this is worth especial study. As a relatively small trading nation without much in the way of natural resources, it must compete and innovate

to make a living. It retains a post-imperial habit of thinking and investing globally, and it is home to the world's most important international financial centre. All this makes it a testing ground for globalisation.

Britain's economy is one of the most open among the big rich countries (see chart 1). Britons have long been avid investors overseas, and now foreign investors are returning the favour: last year Britain was second only to America as a destination for foreign direct investment.



Britain is a little ahead on restructuring its economy too. Its dire economic performance in the 1970s forced an early cure: from the 1980s it de-industrialised with a vengeance, freeing the labour market and strengthening competition. Today Britain does little of the mass manufacturing that countries such as Italy are struggling to defend against lower-cost competitors, and its workforce is much more flexible than France's or Germany's. Much of what is left of its industry is in high-tech or research-based fields such as aerospace engines and pharmaceuticals, where its world-class firms are more than holding their own. Companies were early into outsourcing and offshoring, too. Most importantly, Britain's deregulated financial markets and business services are doing a roaring trade as other countries become more internationally minded.

So the question is not whether Britain is successfully riding the current wave of globalisation: the answer to that is yes. It is whether it can keep coming up with the new products and services it needs to sell to pay for the food and the shoes it no longer produces. And here a few doubts set in.

The first is that Britain is raising its taxes just when other countries are cutting theirs, and

**Exchange rates**  
British pound, January 22nd 2007

	\$	€	¥
£1=	1.98	1.53	240

is introducing more red tape. But these things have happened only recently and could easily be reversed.

What will be harder to put right is another deficiency regularly flagged up by the OECD: education and skills. Other countries are rapidly moving up the value-added ladder in manufacturing. And thanks to the internet, many more sophisticated services too can now be offered from afar, including legal advice, medical diagnosis, consulting and accounting—just what Britain's educated professional middle class is selling around the world. Universities in India, China and elsewhere are pouring out graduates increasingly capable of doing them. Yet in Britain, for all the talk of the “knowledge-based economy”, secondary schooling and vocational training are in a state of permanent upheaval and universities are underfunded.

That is a particular pity, because a more coherent educational system might help to deal with another problem too: a growing social malaise and lack of cohesion. Globalisation is undermining the old certainties in lots of ways: employment is less secure, communities less rooted, the gaps between rich and poor, skilled and unskilled, young and old, are wider, and immigration has risen sharply in recent years. All this has created vibrancy and buzz, but also dislocation and often a sense of grievance. The discovery of substantial pools of home-grown Islamic terrorists has added a frisson of fear.

Britain is in some ways a halfway house between America and the rest of Europe. It more closely resembles its transatlantic cousin in its open and flexible markets, but it shares its commitment to social safety nets with other EU members. At every turn the choice lies between openness and protectionism, between multiculturalism and nativism, between engagement and isolationism. Which way will it go?

