**Developed Countries and Globalisation**

In 1979, Margaret Thatcher was elected as Prime Minister of the UK. In 1980, Ronald Reagan was elected President of the USA. Both leaders were very much in favour of free markets and embraced aspects of Globalisation. This has led to increases in living standards in both the US and UK but it has been at the expense of traditional manufacturing in both countries which has led to increasing structural unemployment in some areas. It has also meant that the UK and USA have had persistent current account deficits. On the plus side, there has been the growth of large MNC’s and the scope for more foreign investment into countries (paying for the current account through the financial account).

**Increased Living Standards**

Over the past 30 years, the UK arguably has moved towards a more advanced economy through specialization in high value added, GDP producing industries such as Media, Financial Services and Design. This has fuelled our economic growth and meant we have been able to earn decent export revenues.

Consumer choice has also increased and technology improvements have meant since 2000, the advance of technology surrounding mobile phones and computers, as one example, has been unprecedented.

**Structural Unemployment**

Structural unemployment is caused by a mismatch of skills between the unemployed and available jobs. Structural unemployed is caused by changes in the economy, such as deindustrialization or foreign competition, which leaves some unemployed workers unable to find work in new industries with different skill requirements. Structural unemployment occurs even during periods of strong economic growth. It is a form of supply side unemployment and not insufficient aggregate demand (AD). Structural unemployment can be caused by:

* Geographical immobilities – This occurs when workers are unable to move from areas of high unemployment to areas with labour shortages. This could occur due to the difficulties of buying/renting a house. It could also be due to family attachments to their current area. For example, often there are vacancies in London but unemployment in outlying regions. However, it is difficult for the unemployed to leave the north-east and find a place to live in London.
* Occupational immobilities. This occurs after changes in the economy, which lead to shifting demand for skilled labour. For example, if there is a closure of manufacturing firms, workers with skills for these types of jobs may struggle to relocate in new industries where very different skills are required (e.g. IT skills, teaching, accountancy). It takes time for people to retrain and older workers may feel it is too difficult.

The US car manufacturing firm (General Motors) closed down in Detroit due to strong international competition. Car workers become unemployed but were not qualified to gain jobs in areas of labour vacancies, such as teaching, doctors, electricians, IT – mostly in other parts of the country. Due to decline of car industry, in 2009, unemployment in Detroit rose to 29% (compared to the national rate of 9.8%) (link)

Globalisation and free trade can lead to shifting patterns of manufacture and labour demand. In recent decades, many firms have shifted the manufacture of clothes from high wage, western economies like the UK to Asian economies, such as China, India and Bangladesh. This has caused a degree of structural unemployment for those who have lost jobs in Western industries. Globalisation and free trade do create new opportunities. For example, as old industries have declined, new industries have emerged, such as higher tech manufacture, IT, computing, insurance, and internet based companies. However, these new industries may require a different skill set to previous manufacturing jobs, and it is this that can cause structural unemployment.

The UK, like many other Western economies, have seen the number of jobs in coal mining fall dramatically in the past 100 years in regions such as South Wales and South Yorkshire. From employing over 1 million miners in the 1920s, there are now fewer than 5,000. Coal miners are a group of workers susceptible to structural unemployment. As manual workers, they may have no formal qualifications and may have strong attachments to their mining town. However, when the mines close it can be difficult to find new jobs. Cheaper imports of Gas from Norway and Russia have replaced the need for

The ‘North-South’ divide has been much talked about in the UK and perhaps has been exacerbated by an increase in Globalisation. As the UK’s economy has shifted from manufacturing to services, this has benefitted the South-East regions (including London) but often at the expense of stagnant or falling living standards elsewhere in the country.

**Deflationary Pressures**

Since the 1970s, inflation in advanced industrial countries has fallen. This global trend towards lower inflation has helped the UK also experience lower inflation. Lower inflation across the globe is due to several factors but rising productivity and cheaper manufactured goods through specialization from trade has contributed to lower inflation. The growth of MNC’s and exploitation of economies of scale, have also helped in reducing prices as has cheaper labour through immigration. However there are other reasons for lower inflation such as the monetary targeting of inflation introduced from the 1990’s.

**Growth of Foreign Ownership in the UK**

FDI is the net transfer of funds to purchase and acquire physical capital, such as factories and machines, e.g. Nissan a Japanese firm building a car factory in the UK. It is associated with Globalisation as these MNC’s or multi-national corporations bridge their business into many different countries bringing welcome investment and jobs BUT also potentially leaving countries vulnerable.

Over recent years, the number of UK firms owned by foreign investors has increased significantly. Cadbury, Jaguar Land Rover and Asda are among the big UK names owned by foreign companies. The USA, France, Germany, India and China are all big investors into the UK.

On one hand this has brought jobs and investment and enabled us to fund our current account deficit through a positive financial account. On the other hand, certain MNC’s such as Google and Amazon have been accused of not paying their full share of tax to the UK Government. Microsoft pays just 3% of their turnover in tax and some estimate Microsoft’s worldwide tax avoidance amounts to $4.6 billion, with approx £105m in the UK. Google is estimated to put 90% of its turnover through its Irish subsidiary to benefit from lower corporation tax in Ireland. It also routes some money through Bermuda. Google had £2.5bn of UK sales in 2011. But only paid £3.4 million UK tax; a tax rate of 0.1% despite having a global-wide profit margin of 33%! Amazon had a turnover of £3.9 bn but the company paid just £1.9m in tax – the equivalent of just 2.5 % of its estimated profits.

The UK’s persistent current account deficit has persisted since the 1980’s as we have exported less (decline of manufacturing) and imported more (outsourcing abroad). In the past, this would lead to a currency crisis and Sterling would be falling rapidly. However this does not seem to be happening and arguably FDI is stopping this from happening but how sustainable is this model moving forward especially in the light of BREXIT? Reliance on FDI might mean that the UK is potentially vulnerable to investors pulling out OR foreign owners having too much of an influence on how our economy is run through influencing politics through the media (Rupert Murdoch through the Times and Sun etc.).

**Greater Immigration into the UK**

In the past two decades, the UK has experienced a steady flow of net migrants into the economy. This net migration has had a wide-ranging impact on UK population, wages, productivity, economic growth and tax revenue. To what extent does net migration benefit the UK economy? Immigrant workers are likely to be in the mid-20s and 30s. It is this age group where workers are most flexible and willing to travel to find work. As they near retirement age, immigrant workers are more likely to return to the country of their origin. This age composition has implications for net contribution to tax revenues.

A common question people often ask – is whether immigration causes unemployment and pushes down wages? Migrants have often been blamed for ‘taking our jobs’ – especially in periods of high unemployment, and in local areas of above average unemployment.

Firstly, net migration is compatible with low unemployment. Net migration helped the US population to increase drastically around the turn of the century, but this didn’t cause unemployment. Migrants bring both increased supply of labour and higher demand for labour. In the 1990s, net migration was consistent with falling unemployment in the UK.

However, in periods of high unemployment, it may be much more difficult for migrants to find work. This may be exacerbated if the migrants have poor English, low skills and or suffer racial discrimination. In this case, net migration could add to the unemployment problem. However, the underlying cause of unemployment is not the net migration, but the recession.

Another factor that determines the impact on unemployment is the skills and qualifications of immigrants. If migrants have low skills, they are more likely to experience structural unemployment. In the 1950s, immigration into the UK from the Carribean was encouraged for manual labour (driving buses e.t.c.) to fill job vacancies. However, when the period of full employment ends, migrants may be more liable to be unemployed, if they lack the skills to find new work.

The impact of net immigration depends on:

1. **The skills and qualifications of migrants.** The UK is increasingly strict on allowing only skilled workers.
2. **How easy do migrant find it to assimilate in the destined country?** E.g. in the 1950s and 1960s, migrants from the Indian sub-continent / Carribean may have found it more difficult to find employment due to poor English / racial discrimination.
3. **It depends on the age profile of migrants.** If a high % are young workers, then this can help reduce the drain on Government spending and will boost tax revenues, a crucial issue for the government budget.
4. **It depends on the current economic climate.** In a recession, migrants will find it harder to gain employment.
5. **It depends on the type and skills of migrants.** Migrants from Eastern Europe may be more flexible and return home if the economic situation deteriorates. Low skilled migrants are more likely to be structurally unemployed.
6. **Migrants can be a source of foreign income**, e.g. tuition fees from foreign students. However, migrants may also send a substantial portion of their earnings to relatives abroad – reducing the wealth of UK.
7. **Can the Economy absorb a greater population?** For example, what are the impact on public services, levels of congestion, and housing? But people often forget that migrant workers do pay tax.