**Economy of the United Kingdom (britanica)**

The United Kingdom has a fiercely independent, developed, and international [trading](https://www.britannica.com/topic/market) economy that was at the forefront of the 19th-century [Industrial Revolution](https://www.britannica.com/event/Industrial-Revolution). The [country](https://www.britannica.com/topic/nation-state) emerged from [World War II](https://www.britannica.com/event/World-War-II) as a military victor but with a debilitated manufacturing sector. Postwar recovery was relatively slow, and it took nearly 40 years, with additional stimulation after 1973 from membership in the [European Economic Community](https://www.britannica.com/topic/European-Community-European-economic-association) (ultimately succeeded by the [European Union](https://www.britannica.com/topic/European-Union) [EU]), for the British economy to improve its competitiveness significantly. Economic growth rates in the 1990s compared favourably with those of other top industrial countries. Manufacturing’s contribution to [gross domestic product](https://www.britannica.com/topic/gross-domestic-product) (GDP) has declined to about one-fifth of the total, with services providing the source of greatest growth. The United Kingdom’s chief trading ties shifted from its former empire to other members of the EU, which came to account for more than half its trade in [tangible](https://www.merriam-webster.com/dictionary/tangible) goods. The [United States](https://www.britannica.com/place/United-States) remained a major investment and trading partner, and [Japan](https://www.britannica.com/place/Japan) also became a significant investor in local production. American and Japanese companies have often chosen the United Kingdom as their European base. In addition, other fast-developing East Asian countries with export-oriented economies included the United Kingdom’s open market among their important outlets.

In the 1990s the movement known as Euroskepticism, which advocated political and economic disengagement from the EU, began gaining steam in the United Kingdom. By the second decade of the 21st century, support for this viewpoint had become so widespread that a referendum on continued British membership in the EU was put to the electorate. Some 52 percent of voters opted for British exit from the EU (popularly branded “Brexit”), setting in motion a protracted process that eventually culminated in the United Kingdom’s formal withdrawal from the EU on January 31, 2020, initiating a period of economic transition and uncertainty.

During the 1980s the [Conservative](https://www.merriam-webster.com/dictionary/Conservative) government of [Margaret Thatcher](https://www.britannica.com/biography/Margaret-Thatcher) pursued the [privatization](https://www.britannica.com/topic/privatization), or denationalization, of publicly owned corporations that had been nationalized by previous governments. Privatization, accompanied by widespread labour unrest, resulted in the loss of tens of thousands of jobs in the coal-mining and heavy industrial sectors. Although there was some improvement in the [standard of living](https://www.britannica.com/topic/standard-of-living) nationally, in general there was greater prosperity in the South East, including London, than in the heavily industrialized regions of the [West Midlands](https://www.britannica.com/place/West-Midlands), northern England, Clydeside, and [Belfast](https://www.britannica.com/place/Belfast), whose economies suffered during the 1980s. During the 1980s and ’90s, income disparity also increased. Unemployment and [inflation](https://www.britannica.com/topic/inflation-economics) rates were gradually reduced but remained high until the late 1990s. The country’s role as a major world financial centre remained a source of economic strength. Moreover, its exploitation of offshore natural gas since 1967 and oil since 1975 in the North Sea has reduced dependence on coal and imported oil and provided a further economic boost.

**Agriculture, forestry, and fishing**

**Agriculture**

The United Kingdom is unusual, even among western European countries, in the small proportion of its employed population (about 2 percent) engaged in agriculture. With commercial intensification of yields and a high level of mechanization, supported initially by national policy and subsequently by the [Common Agricultural Policy](https://www.britannica.com/topic/Common-Agricultural-Policy) (CAP) of the EU, the output of some agricultural products exceeded demand during much of the United Kingdom’s [tenure](https://www.merriam-webster.com/dictionary/tenure) in the European Union. Employment in agriculture has declined gradually, and, with the introduction of policies to achieve reduction of surpluses, the trend is likely to continue. Efforts have been made to create [alternative](https://www.merriam-webster.com/dictionary/alternative) employment opportunities in rural areas, some of which are remote from towns. The land area used for agriculture (about three-quarters of the total) has also declined, and the arable share has fallen in favour of pasture.

Official agricultural policy aimed to improve productivity, to ensure stable markets, to provide producers a fair standard of living, and to guarantee consumers regular food supplies at reasonable prices. Under CAP a system of minimum prices for domestic goods and levies on imports to support domestic prices was provided. Exports were encouraged by subsidies that made up the difference between the world market price and the EU price. For a few products, particularly beef and sheep, there were additional payments made directly to producers. Other policies included milk quotas, land set-asides (to compensate farmers for taking land out of agricultural use), and reliance on the price mechanism as a regulator.

The most important farm crops are wheat, barley, oats, sugar beets, potatoes, and rapeseed. While significant proportions of wheat, barley, and rapeseed provide [animal feed](https://www.britannica.com/topic/feed-agriculture), much of the remainder is processed for human [consumption](https://www.merriam-webster.com/dictionary/consumption) through flour milling (wheat), malting and distilling (barley), and the production of vegetable oil (rapeseed). The main livestock products derive from cattle and calves, sheep and lambs, pigs, and poultry. The United Kingdom has achieved a high level of self-sufficiency in the main agricultural products except for sugar and cheese.

**Forestry**

About one-tenth of the United Kingdom’s land area is devoted to productive forestry. The government-supported Forestry Commission manages almost half of these woodlands, and the rest are in private hands. Domestic timber production supplies less than one-fifth of the United Kingdom’s demand. The majority of new plantings are of conifers in upland areas, but the commission encourages planting broad-leaved trees where appropriate.

[**Fishing**](https://www.britannica.com/technology/commercial-fishing)

Although the United Kingdom is one of [Europe’s](https://www.britannica.com/place/Europe) leading fishing countries, the industry has been in long-term decline. Fishing limits were extended to 200 nautical miles (370 km) offshore in the mid-1970s, and, because a significant part of the area fished by EU members lies within British waters, catches were regulated on a community-wide basis while the United Kingdom was a member of the EU. Meanwhile, the United Kingdom lost opportunities to fish in some more-distant waters (e.g., those off Iceland), and this reduced its total catch more than that of other countries of the EU. The United Kingdom’s [fishing industry](https://www.britannica.com/technology/commercial-fishing) now supplies only half the country’s total demand. The most important fish landed are cod, haddock, mackerel, whiting, and plaice, as well as shellfish, including Nephrops (Norway lobsters), lobsters, crabs, and oysters. Estuarine fish farming—mainly of trout and salmon—has expanded considerably.

**Resources and power**

**Minerals**

The United Kingdom has relatively limited supplies of economically valuable mineral resources. The once-important extraction of iron ore has dwindled to almost nothing. Other important metals that are mined include tin, which supplies about half the domestic demand, and zinc. There are adequate supplies of nonmetallic minerals, including sand and gravel, limestone, dolomite, chalk, slate, barite, talc, clay and clay shale, kaolin (china clay), ball clay, [fuller’s earth](https://www.britannica.com/science/fullers-earth), celestine, and gypsum. Sand, gravel, limestone, and other crushed rocks are quarried for use in construction.

**Energy**

By contrast, the United Kingdom has relatively large energy resources including oil, natural gas, and coal. [Coal](https://www.britannica.com/science/coal-fossil-fuel), the fuel once vital to the British economy, has continued to decrease in importance. Compared with its peak year of 1913, when more than one million workers produced more than 300 million tons, current output has fallen by more than four-fifths, with an even greater reduction in the [labour force](https://www.britannica.com/topic/labor-in-economics). Power stations are the major customers for coal, but, with growth in the use of other fuels and the increasing closing of pits that have become uneconomical to operate, the industry remains under considerable pressure.

The discovery of [oil](https://www.britannica.com/science/petroleum) in the [North Sea](https://www.britannica.com/place/North-Sea) and the apportionment of its area to surrounding countries led to the rapid development of oil exploitation, and the United Kingdom became virtually self-sufficient in oil and even an exporter. With an average output of nearly three million barrels per day at the beginning of the 21st century, the country was one of the world’s largest producers. The [balance of payments](https://www.britannica.com/topic/balance-of-payments) has benefited considerably from oil revenues, and a substantial proportion has been invested abroad to offset diminishing oil income in the future. Proven reserves were estimated at around 700 million tons in the late 1990s.

Since offshore [natural gas](https://www.britannica.com/science/natural-gas) supplies from the [North Sea](https://www.britannica.com/place/North-Sea) began to be available in quantity in 1967, they have replaced the previously coal-based supplies of town gas. A national network of distribution pipelines has been created. Proven reserves of natural gas were estimated at 26.8 trillion cubic feet (760 billion cubic metres) in the late 1990s.

Self-sufficiency in oil and natural gas and the decline of [coal mining](https://www.britannica.com/technology/coal-mining) has transformed [Britain’s](https://www.britannica.com/place/Great-Britain-island-Europe) energy sector. Nuclear fuel has slightly expanded its contribution to electricity generation, and [hydroelectric power](https://www.britannica.com/science/hydroelectric-power) contributes a small proportion (mainly in Scotland), but conventional steam power stations provide most of the country’s electricity.

**Manufacturing**

The manufacturing sector as a whole has continued to shrink both in employment and in its contribution (about one-fifth at the beginning of the 21st century) to the GDP. The decline in manufacturing largely accounted for the rapid rise in unemployment in the early 1980s. Once [economic growth](https://www.britannica.com/topic/economic-growth) returned, however, there was great improvement in productivity and profits in British manufacturing.

In terms of their relative importance to the GDP, the most important manufacturing industries are engineering; food, beverages (including alcoholic beverages), and tobacco; chemicals; paper, printing, and publishing; metals and minerals; and textiles, clothing, footwear, and leather. The fastest-growing sectors have been chemicals and electrical engineering. Within the [chemical industry](https://www.britannica.com/technology/chemical-industry), pharmaceuticals and specialty products have shown the largest increases. Within the engineering industry, electrical and instrument engineering and transport engineering—including motor vehicles and aerospace equipment—have grown faster than [mechanical engineering](https://www.britannica.com/technology/mechanical-engineering) and metal goods, and electronic products have shown the fastest growth. On the other hand, the growth in motor vehicle production has occurred among foreign-owned, especially Japanese, companies investing in the United Kingdom. British automobile manufacturers have been in decline since the 1970s. After a period of restructuring during the 1980s, the British steel industry substantially increased its productivity, output, and exports during the 1990s. However, food, beverages, tobacco, leather, and engineering as a whole have had below-average growth. Textiles, clothing, and footwear have been in absolute decline because British companies have faced increasing difficulty competing with imports, especially from [Asia](https://www.britannica.com/place/Asia).

During the 1980s imports of manufactured products increased dramatically, and, although exports of finished manufactured products increased in value, the surplus in the [balance of trade](https://www.britannica.com/topic/balance-of-trade) disappeared and was transformed into a large deficit. Nevertheless, after a period of restructuring in the 1980s, Britain’s manufacturing sector increased its productivity and competitiveness, and the trade balance improved and stabilized during the 1990s.

Construction in Britain stagnated during the 1990s because of a decline in prices and in demand for new housing and because of decreased government investment in [infrastructure](https://www.merriam-webster.com/dictionary/infrastructure) during the first half of the decade. About half the labour force in construction is self-employed. More than half of all construction work is on new projects, the remainder on repair and maintenance. There has been a marked switch from housing funded and owned by public authorities toward private development. Considerable efforts have also been made to encourage tenants of publicly owned rented houses to become owner-occupiers, with the result that the proportion of owner-occupied homes has grown considerably since the early 1970s. The supply of privately rented accommodations became scarcer because of statutory rent controls that discouraged new construction, but changes during the 1980s both in the economic climate and in official policy began to stimulate the supply. The average price of a new house, particularly in London and the South East, has generally continued to increase more rapidly than the prevailing rate of inflation, although prices have fluctuated considerably. In turn, the rising price of new homes has created considerable pressure on the land available for housing, which has been relatively tightly controlled. Here, too, public policy has been changing in favour of greater permissiveness.

Private industrial and commercial construction and public projects account for the remainder of construction. During the 1980s and ’90s the United Kingdom embarked on a series of major infrastructure projects, including the [Channel Tunnel](https://www.britannica.com/topic/Channel-Tunnel) between Britain and [France](https://www.britannica.com/place/France), the rebuilding of large parts of London’s traditional Docklands as a new commercial centre, and extensions to London’s rail and Underground systems.

**Finance**

The United Kingdom, particularly London, has traditionally been a world financial centre. Restructuring and deregulation transformed the sector during the 1980s and ’90s, with important changes in banking, insurance, the [London Stock Exchange](https://www.britannica.com/topic/London-Stock-Exchange), shipping, and commodity markets. Some long-standing distinctions between financial institutions have become less clear-cut. For example, housing loans used to be primarily the responsibility of building societies, but increasingly banks and insurance companies have entered this area of lending. Two related developments have occurred: the transformation of building-society branch offices into virtual banks with personal cashing facilities and the diversification of all three of these types of institutions into real estate services. Building societies also participate to a limited extent in investment services, insurance, trusteeship, executorship, and land services.

At the end of the 20th century, the financial services industry employed more than one million people and contributed about one-twelfth of the GDP. Although financial services have grown rapidly in some medium-sized cities, notably [Leeds](https://www.britannica.com/place/Leeds-England) and [Edinburgh](https://www.britannica.com/place/Edinburgh-Scotland), London has continued to dominate the industry and has grown in size and influence as a centre of international financial operations. Capital flows have increased, as have foreign exchange and securities trading. Consequently, [London](https://www.britannica.com/place/London) long had more foreign banks than any other city in the world, though it remained to be seen whether this distinction would continue after the United Kingdom’s departure from the EU. Increased competition and technological developments have accelerated change. The International Stock Exchange was reorganized, and the historical two-tier structure of brokers, who executed investors’ instructions to buy and sell stocks and shares, and jobbers, who “made” markets in these securities, was abolished. As a result, new companies link British and foreign banks with former brokers and jobbers. The Financial Services Act of 1986, the Building Societies Act of 1987, and the Banking Act of 1987 regulate these new financial organizations.

In 1997 the government established the Financial Services Authority (FSA) to regulate the financial services industry; it replaced a series of separate supervisory organizations, some of them based on self-regulation. Among other tasks, the FSA took over the supervision of the United Kingdom’s commercial banks from the [Bank of England](https://www.britannica.com/topic/Bank-of-England). The FSA was widely criticized for its response to the financial crisis that erupted in 2008 and led to a government bailout for a number of prominent British banks. As a result, the Financial Services Act of 2012 abolished the FSA, and the “tripartite” system of financial regulation (the FSA, the [Bank of England](https://www.britannica.com/topic/Bank-of-England), and the Treasury) was replaced in 2013 with three new bodies—the Financial Conduct Authority (FCA), [mandated](https://www.merriam-webster.com/dictionary/mandated) with regulating financial service firms and protecting consumers, the Financial Policy Committee (FPC), and the Prudential Regulation Authority (PRA)—the last two of which were embedded in the Bank of England, to which the supervision and regulation of banks were returned.

The [Bank of England](https://www.britannica.com/topic/Bank-of-England) retains the sole right to issue banknotes in England and [Wales](https://www.britannica.com/place/Wales) (banks in [Scotland](https://www.britannica.com/place/Scotland) and [Northern Ireland](https://www.britannica.com/place/Northern-Ireland) have limited rights to do this in their own areas). In 1997 the Bank of England was given the power to set the “repo,” or [benchmark](https://www.merriam-webster.com/dictionary/benchmark), interest rate, which influences the general structure of interest rates. The bank’s standing instruction from the government is to set an interest rate that will meet a target inflation rate of 2.5 percent per annum. The bank also intervenes actively in foreign exchange markets and acts as the government’s banker. The [pound sterling](https://www.britannica.com/topic/pound-sterling) is a major internationally traded currency.

A variety of institutions, including insurance companies, pension funds, and investment and unit trusts, channel individual savings into investments. Finance houses are the primary providers of home mortgages and corporate lending and leasing. There are also companies that finance the leasing of business equipment; actoring companies that provide immediate cash to creditors and subsequently collect the corporate debts owed; and finance corporations that provide venture capital funding for [innovations](https://www.merriam-webster.com/dictionary/innovations) or high-risk companies and that supplement the medium- and long-term capital markets, otherwise supplied by the banks or the Stock Market.

The United Kingdom has a number of organized financial markets. The securities markets [comprise](https://www.merriam-webster.com/dictionary/comprise) the International Stock Exchange, which deals in officially listed stocks and shares (including government issues, traded options, stock index options, and currency options); the Unlisted Securities Market, for smaller companies; and the Third Market, for small unlisted companies. Money market activities include the trading of bills, certificates of deposit, short-term deposits, and, increasingly, sterling commercial paper. Other markets are those dealing in Eurocurrency, Eurobonds, foreign exchange, [financial futures](https://www.britannica.com/topic/futures), gold, ship brokerage, freight futures, and agricultural and other commodity futures.

The share of [invisible trade](https://www.britannica.com/topic/invisible-trade) (receipts and payments from financial services; interest, profits, and dividends; and transfers between the United Kingdom and other countries) has been rising steadily since the 1960s—from about one-third to one-half of the country’s total foreign earnings. Within this area, service transactions have grown rapidly, and financial services have grown the fastest.

**Trade of the United Kingdom**

Trade has long been pivotal to the United Kingdom’s economy. The total value of imports and exports represents nearly half the [country’s](https://www.britannica.com/topic/nation-state) [GDP](https://www.britannica.com/topic/gross-domestic-product). (By comparison, the value of [foreign trade](https://www.britannica.com/topic/international-trade) amounts to about one-fifth of the GDP of the United States.) The volume of both the exports and the imports of the United Kingdom has grown steadily in recent years. Principal British exports include machinery, automobiles and other transport equipment, electrical and electronic equipment (including computers), chemicals, and oil. Services, particularly financial services, are another major export and contribute positively to [Britain’s](https://www.britannica.com/place/Great-Britain-island-Europe) trade balance. The country imports about one-tenth of its foodstuffs and about one-third of its machinery and transport equipment.

An increasing share of the United Kingdom’s trade is with other developed countries. Joining the [European Economic Community](https://www.britannica.com/topic/European-Community-European-economic-association) caused a major reorientation of trade flows. At the beginning of the 21st century, about half of all trade was with the United Kingdom’s partners in the European Union, although the [United States](https://www.britannica.com/place/United-States) remained the United Kingdom’s single largest export [market](https://www.britannica.com/topic/market) and a major supplier. [Germany](https://www.britannica.com/place/Germany) was the leading supplier and the second most important export market. Whether the United Kingdom’s trading partners would change dramatically as a result of Brexit (Britain’s exit from the European Union) remained an open question, as the country entered a period of economic transition in 2020

The United Kingdom’s current overall [balance of payments](https://www.britannica.com/topic/balance-of-payments) (including trade in services and transfer payments), which historically had been generally favourable, fell into deficit from the mid-1980s until the late 1990s because visible imports (i.e., [tangible](https://www.merriam-webster.com/dictionary/tangible) goods imported) exceeded visible exports. Meanwhile there was considerable overseas investment, and foreign earnings grew. The government has supported trade liberalization and participated in international trade organizations. By the late 1990s the steady growth in exports of goods and services and in foreign earnings had produced the first balance-of-payments surplus in more than a decade.

**Services**

The most remarkable economic development in the United Kingdom has been the growth of service industries, which now provide about two-thirds of the GDP and three-fourths of total employment. This reflects the rise in real personal incomes, changes in patterns of consumer expenditure, and the elaboration and increasing outsourcing of business services. Although some services—for example, [public transportation](https://www.britannica.com/topic/mass-transit), laundries, and movie theatres—have declined in favour of privately owned goods—such as automobiles, washing machines, and television sets—this has stimulated increased demand for the related services that distribute, maintain, and repair such products. Other growing service industries include hotels and catering, [air travel](https://www.britannica.com/technology/aviation) and other leisure-related activities, distribution (particularly retailing), and finance. Especially rapid growth has occurred in other business-support services, including computing systems and software, management consultancy, advertising, and [market research](https://www.britannica.com/topic/market-research), as well as the provision of exhibition and conference facilities. Britain is also the base for some of the world’s leading art auction houses.

The United Kingdom’s many cultural treasures—e.g., its historic castles, museums, and theatres—make it a popular tourist destination. The tourism industry is a leading sector in the British economy, and each year more than 25 million tourists visit the country. London is among the world’s most-visited cities.

**Labour and taxation**

Government revenues are derived from several main sources, including income taxes, corporate taxes, taxes on the sale of goods and services, and national insurance contributions. After [World War II](https://www.britannica.com/event/World-War-II) the government adopted individual [income tax](https://www.britannica.com/topic/income-tax) rates that were among the highest in [Europe](https://www.britannica.com/place/Europe). During the last two decades of the 20th century, individual income tax rates dropped, and corporate tax rates increased slightly. A [value-added tax](https://www.britannica.com/topic/value-added-tax), which levies a 20 percent tax on purchases, generates between one-tenth and one-fifth of government revenues.

During the 1980s the Thatcher government adopted policies that placed limits on the power and influence of trade unions and provided training for those entering the workforce or changing careers. The Labour government of the late 1990s retained many of Thatcher’s policies, but they abandoned the [Conservative](https://www.merriam-webster.com/dictionary/Conservative) objective of unlimited tax reduction and instead sought to stabilize the overall burden of taxation at about 37 percent of GDP.

Just under half the total population is in the [labour force](https://www.britannica.com/topic/labor-in-economics), including a small but expanding proportion who are self-employed. About three-tenths of workers are members of a [trade union](https://www.britannica.com/topic/trade-union), a share that dropped significantly with the adoption of legislation restricting trade union rights in the last two decades of the 20th century. Among the various influential trade organizations are the public-sector union [UNISON](https://www.britannica.com/topic/UNISON) and the general-services unions Unite and [GMB](https://www.britannica.com/topic/GMB). Although manufacturing once dominated employment, it now involves less than one-sixth of all workers. In contrast, the [service sector](https://www.britannica.com/topic/service-industry) employs more than two-thirds of employees, with financial services and distribution the two largest components.

**Transportation and telecommunications**

The United Kingdom, which is relatively small in area and has a fairly high population density, has undergone considerable change in its patterns of transport. The growth of automobile ownership (by the turn of the 21st century, nearly two-thirds of all households had one automobile, and some had two or more), the decline in the use of local buses, and the transfer of much internal freight from rail to road increased the importance of maintaining and developing road networks, particularly motorways (superhighways) and trunk roads. Intercity rail services have been improved, as have commuter services in major metropolitan areas. Similarly, air traffic has grown, particularly international flights. Although there has been a downward trend in shipping and sea travel, most foreign trade still moves by sea. However, the opening of the [Channel Tunnel](https://www.britannica.com/topic/Channel-Tunnel) rail link between [England](https://www.britannica.com/place/England) and [France](https://www.britannica.com/place/France) in 1994 had a big impact on cross-Channel passenger and freight patterns. At peak periods the tunnel accommodates up to four passenger and four freight shuttletrains per hour in each direction. By the end of the decade, these trains carried about half of the car traffic and more than one-third of the coach and truck traffic on the over/Folkestone–[Calais](https://www.britannica.com/place/Calais-France) route—the principal artery linking Britain to mainland Europe. In addition, the tunnel accommodates through freight trains and high-speed passenger trains between [London](https://www.britannica.com/place/London) and [Paris](https://www.britannica.com/place/Paris) or [Brussels](https://www.britannica.com/place/Brussels). Substantial passenger and cargo traffic moves by sea between the ports of the United Kingdom, [Ireland](https://www.britannica.com/place/Ireland), and Europe. Oil and [natural gas](https://www.britannica.com/science/natural-gas), each of which has a national bulk-distribution pipeline system, do not rely on the road and rail networks.

Investment in [transportation](https://www.britannica.com/topic/transportation-economics) has sometimes failed to meet rising demand—for example, the M25 motorway around London showed signs of overload soon after it was opened in 1986; there is overcrowding on commuter rail services, including London’s Underground; congested traffic moves at a snail’s pace in cities; and there is continuous pressure to build more motorways and airports to serve London.

During the 1980s British Telecom (BT) was privatized, and the government subsequently deregulated the country’s [telecommunications](https://www.britannica.com/technology/telecommunication) sector. Although BT has continued to be the largest telecommunications company, several additional operators provide extensive service for cable, wireless, fibre-optic, and other telecommunications services. An independent [regulatory agency](https://www.britannica.com/topic/regulatory-agency), the Office of Communications (Ofcom), oversees the sector.