



## **The Impacts of the International Financial Crisis on the UK's Economy-from the Perspective of International Education**

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**Abstract:** In the later year of 2008, a global financial crisis, which is erupted from the subprime mortgage simmered during 2007, has result in significant drop of worldwide investment and trade. Inevitably, It also delivered dramatic loss of productivity and throughput of UK's economy and brought about a series negative impacts on its economy. To cope with this unprecedented global financial crisis, the British government has implemented an abundance of bailout plans to control the spreading and deepening economic recession. In this essay, at the very beginning, the author will probe into the impacts of this raging crisis on the unemployment in the Labor Market. Then, the author will focus on the downfall economic growth and explore the changes happened on money and interest rates throughout this great recession. Finally, the author will focus on negative effects on the international education. During the analysis of these major effects generated by the global financial crisis, the author will also involve the corresponding policy planes unveiled by the UK government in response these negative effects due to this crisis.

**Keywords:** Global Financial Crisis; UK's Economy; International Education.

### **1. The Fluctuation of the Unemployment of UK**

The global financial crisis has gave rise to the unemployment rate and brought about assignable negative impact on UK labor market.

According the KMPG/REC surveys ,which has revealed a sharp reduction in the number of permanent appointments through 28.9 of November to 28 of December in 2008, representing the ninth consecutive monthly decreasing. Meanwhile, the temporary job indices is reported the fifth consecutive monthly drop from 31.7 of November to 29.8 of December, hitting a lowest record since October of 1997. Both the temporary and permanent job indices were miserably below the 50 contraction/expansion level, marking a recession in both job markets.

According the UK National statistics: "There were 31.53 million workforce jobs in

September 2008, reduced 134,000 over the quarter and reduced 71,000 on a year earlier. Most sectors showed decreases in jobs over the quarter. The sector showing the largest quarterly fall in jobs was finance and business services, which fell by 72,000. By the time of October of 2008, there is totally 150 thousand jobs cut. Besides, the claimant count has increased by 257500 during the period from Jan to DEM and up to about 1million. From just Oct to Jan ,the claimant count has increased by 75.5 thousands. During three months of time from SEP TO DEC, the majority of UK' firms are shed up to 38588 jobs due to the higher input and the decrease of demand generated by the global financial crisis. In the terms of employment rates, the proportion of economically active has drop to 74.2 and has decreased 1% when compared over the same period of last year. Approximately 9 million were employed in the workforce, however, 115 thousand jobs were cut during the previous 3 months, and the employment situation continued to deteriorate. When comes to the rates of unemployment, it has jumped to 6 percent and the job loss total will reach 1.86million by the end of 2008, hitting the highest record since 1999.

<b>UK data (unless otherwise stated) seasonally adjusted</b>							
	Reference period	Levels (thousands)	Rates (%)	Changes on period		Sampling variability of changes+	
				Levels	Rates	Levels	Rates
Employment*	Aug-Oct 08	29,377	74.2	-115	-0.4	± 102	± 0.3
Unemployment**	Aug-Oct 08	1,864	6.0	137	0.4	± 71	± 0.2
Economically active*	Aug-Oct 08	31,241	79.1	22	-0.1	± 95	± 0.2
Economically inactive***	Aug-Oct 08	7,899	20.9	39	0.1	± 87	± 0.2
Claimant count	Nov 2008	1,071.9	3.3	75.7	0.2		
Workforce jobs	Sep 2008	31,527		-134		..	
Vacancies++	Sep-Nov 08	562	2.2	-49	-0.2	..	..
<b>GB Average Earnings</b>							
- including bonuses	Aug-Oct 08		3.3 <sup>#</sup>		0.0	± 1.3 <sup>#</sup>	± 0.4 <sup>###</sup>
- excluding bonuses	Aug-Oct 08		3.6 <sup>#</sup>		0.0	± 0.6 <sup>#</sup>	± 0.2 <sup>###</sup>

The subsequent destruction of jobs and increased duration of joblessness has resulted that unemployment throughout the UK will continue to rise and stay stubbornly high for some time. The policy-maker made tough policy choices among bailout and economic stimulus options to solve this thorny problem and strengthen its resilience of its economy. From the demand side, fiscal policy can cut down the high unemployment rate by the aid of increasing aggregate demand and the increasing government spending. The lower tax rates will increase disposable income in the sake of stimulate the consumption., which ultimately helped increase the AD. There will be an increase in the real GDP comes from the increase in the AD. If the output has been increased, the demand for labor will be increased and more job vacancies will be generated the demand-deficient unemployment will to some extent be avoid. Therefore, the UK government decide to cut down the tax when there is a great recession and rise in the cyclical unemployment.. However, the policies of tax

reduction must lead to public expenditure, worse still, it will result in government budget deficit.

Additionally, the UK government applies the monetary policy involved cutting interest rates. Lower interest encourages people to consume and invest instead of saving as the cost of borrowing has decreased. The increase in AD contributes to the rise in the real GDP. Then the demand-deficient unemployment has been reduced. Besides, the UK government also create new jobs by the infrastructure investment plan and the give subsidies to the woman who do the retraining to help them new confidence. By doing this, a lot housewife had been encouraged to be reemployed in the workforce .

## **2. The Slowdown of GDP Growth**

The process of steady increase in the quantity and quality of goods and services the economy can produce is called economic growth. The gross domestic product is the market value of the final goods and services produced in a country during a given period. Namely, Economic growth is an increase in real GDP.

$Y=C+I+G+NX$  ( $Y=GDP, C=$ consumption,expenditure, $I=$ investment, $G=$ government purchases,  $NX=$ net exports)Therefore, if one of components like Consumption, Investment, Government spending or exports has been increased, there will be an increase in GDP and economic growth.

The 2008 credit crunch makes the banks lose lot money and reluctant to lend money out to the public any more, which makes it very difficult for the companies and costumers lending money in investment. Besides, mortgages are not so easy to get, the demand for houses has slumped which leads the house prices fallen. The devaluation in the assets like house resulted in the decline in consumer wealth and the lower confidence to consume. With the joint effects of these factors, there is negative economic growth in the year of 2008 and a sharp fall in Real GDP in the year of 2009,which are described in the figure (3) according to Office for national stacticics(ONS).

The Monetary policies involved cutting interest rates to encourage people to consume and invest instead of saving. As Lower interest rates have decreased the borrowing cost, and reduced mortgage interest payments, which in return increase disposable income for consumers. However, lowering interest rates may not contribute to the economic growth. In 2009, UK interest rates were cut to 0.5% but consumption still remained low because Banks were unwilling to lend because of liquidity shortages. Theoretically , although it was cheap to borrow, in fact it was difficult to create credit . Besides, The government can also choose to cut tax to increase disposable income and increase government spending to boost the economy.

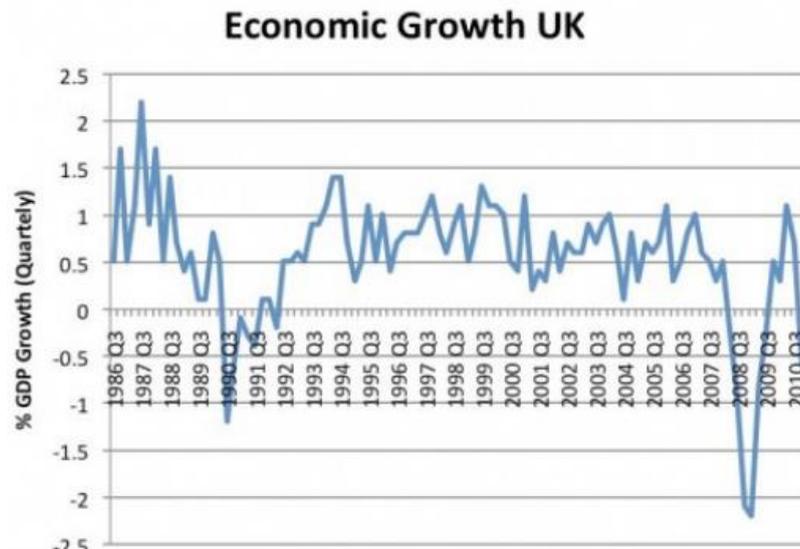


Figure (2)

### 3. The Effects on the Exchange Rates

During the period of Global financial crisis, the government has reduced the interest rate. If UK interest rates rise relative to elsewhere, it will become more attractive to deposit money in the UK. You will get a better rate of return from saving in UK banks, Therefore demand for Sterling will rise. Higher interest rates cause an appreciation. This is known as "hot money flows" and is an important short run factor in determining the value of a currency. The money flows refer to capital flows moving to countries with higher interest rates and / or expected changes in exchange rates.

For international investors, there is substantial gains to be made from moving money between different countries with different interest rates. Under some circumstances, the value of government debt can influence the exchange rate. If markets fear a government may default on its debt, then investors will sell their bonds causing a fall in the value of the exchange rate. For example, Iceland debt problems in 2008, caused a rapid fall in the value of the Icelandic currency. For example, if markets feared the US would default on its debt, foreign investors would sell their holdings of US bonds. This would cause a fall in the value of the dollar.

During this period, the value of Sterling fell over 20%. This was due to:

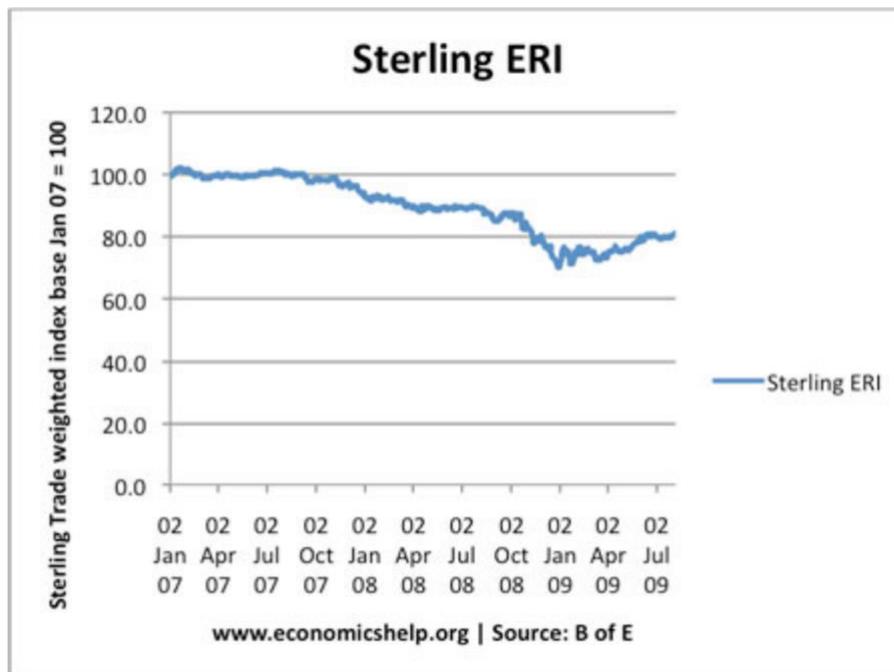
Restoring UK's lost competitiveness. UK had large current account deficit in 2007

Bank of England cut interest rates to 0.5% in 2008.

Recession hit UK economy hard. Markets expected interest rates in UK to stay low for a considerable time.

Bank of England pursued quantitative easing (increasing money supply). This raised prospect of future inflation, making UK bonds less attractive

Example Fall in Value of Sterling 2007 - Jan 2009



#### 4. Impacts on the International Movement of Local and Foreign Students in the UK

Affected by the financial crisis, the pound exchange rate has continued to fall, which has dropped to a certain extent and lowered the cost of international students studying in the UK and therefore added the attractiveness of the field to international students. On the other hand, in the financial tsunami, the British national economy has almost stagnated. Most high School is facing of difficulties of lacking funds and the quality of teaching is difficult to guarantee.

Under this circumstance, expanding the funding sources of colleges and universities becomes the top priority in education. Under normal circumstances, each overseas student needs to pay a tuition fee of over £8,000 per year, which is much higher than that for domestic students which is 3000 pounds per year. The total annual tuition fees charged by British universities to overseas students is as high as £2.25 billion. Collecting tuition fees for overseas students has become an important source of funding for the UK education industry channel. In the 1990s, the tuition fees of international students only accounted for 5% of the total income of British universities. In the 2008-2009 academic year, It accounts for 10% of the total income of British universities .It can be seen that the contribution of international students to the funding of British universities has increased significantly. Therefore, increasing the enrollment of international students is particularly important for alleviating the funding pressure of universities and maintaining the survival and development of universities.

To make up for the financial Gaps, many educational institutions in the UK have increased their Enrollment number. How about the level of British students studying abroad? Because the domestic economy of the United Kingdom maintained a good trend for a long time before the crisis broke out. The quality of higher education is also world-class, which has led to local students being relatively indifferent to studying abroad, and the low exchange rate has increased the cost of studying abroad. To a certain extent, these two factors make students lack enthusiasm for studying abroad, and the influx of international students in the UK is also far greater than the total number of domestic students studying abroad.

In 2009, the Education at Glance released by the Economic Cooperation and Development Group (OECD) showed that about 26,000 British students were studying abroad. This is much lower than France and Germany, which have roughly the same population size. The number of French and German students studying abroad reached 63,000 and 86,000 respectively.

### **5. The less demand on the need for international teachers**

In the UK, the number of local teachers has always been small, and foreign teachers play an important role in the education field. According to the BBC, there is a gap of about 40,000 teachers in the UK every year. About 40% of teachers are between 45 and 55 years old. Relevant statistics show that in 2005, the United Kingdom employed approximately 43,000 foreign teachers from Australia, New Zealand, South Africa, Jamaica, the United States, Canada, Zimbabwe, India, Canada, and Nigeria.

However, due to the impact of the financial crisis, the teaching profession with relatively stable incomes is increasingly favored by domestic elites in the UK, which has relatively reduced the demand for international teachers in the education sector. Many companies have been hit hard by the financial crisis and have not formulated recruitment plans, and even need to lay off a large number of employees. The education industry is relatively stable, and more and more college students are willing to receive relevant training and engage in education.

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