# ECONOMIC AND BUSINESS HISTORY 23/24

## LECTURE 15: THE OIL CRISIS

Lisbon School of Economics & Management
Universidade de Lisboa

# PLAN

1. Oil Shock

2. The end of the Golden Age

3. Growth after the Golde Age

# 1. The Oil Shock

# Strategic Commodities (1950-89) (average annual price)

| | Gold (UK; $/ounce) | Oil (Saudi; $/barrel) | Wheat (US; $/*bushel*) |
|---|---|---|---|
| 1950 | 35,00 | 1,71 | 2,23 |
| 1970 | 35,98 | 1,30 | 1,48 |
| 1973 | 100,00 | 2,70 | 3,81 |
| 1974 | 102,02 | 9,76 | 4,90 |
| 1980 | 607,87 | 28,67 | 4,70 |
| 1982 | 375,80 | 33,47 | 4,36 |
| 1989 | 381,28 | 17,18 | 4,61 |
| | | | |

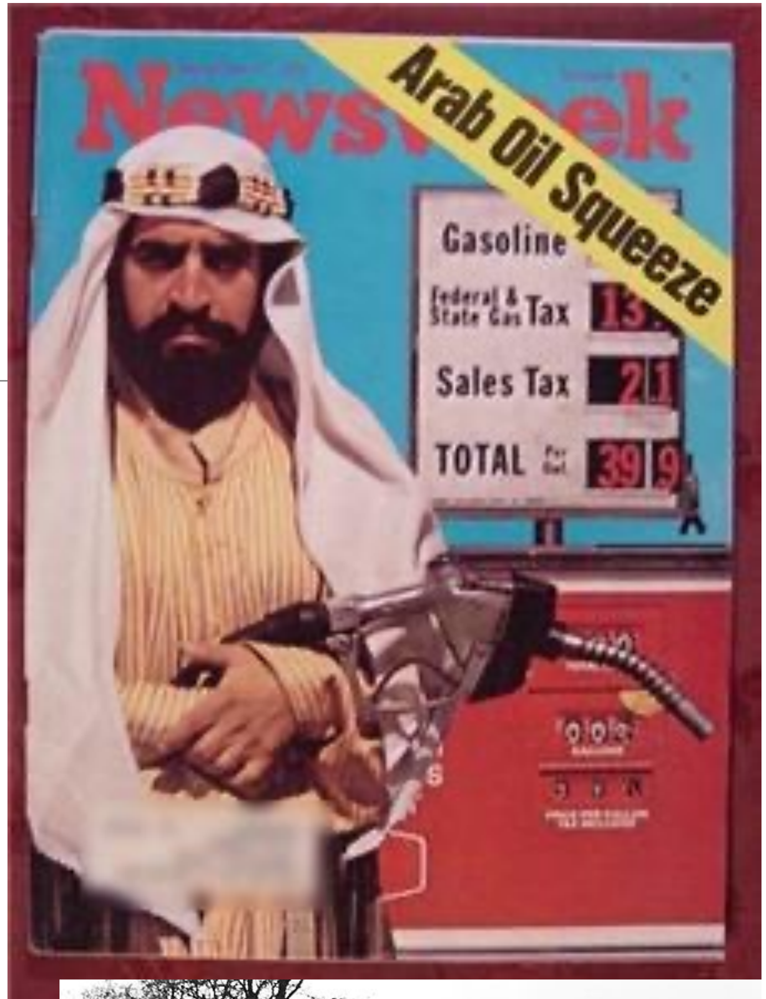
# 1973 Oil Shock

OPEC countries agreed to abruptly decreased output levels

- First rise in 1973 -4 (oil prices trebbled in 4 months)
- Second Oil crisis 1979-80
- Price peaked in 1985

Widespread recession amongst capitalist economies in 1974

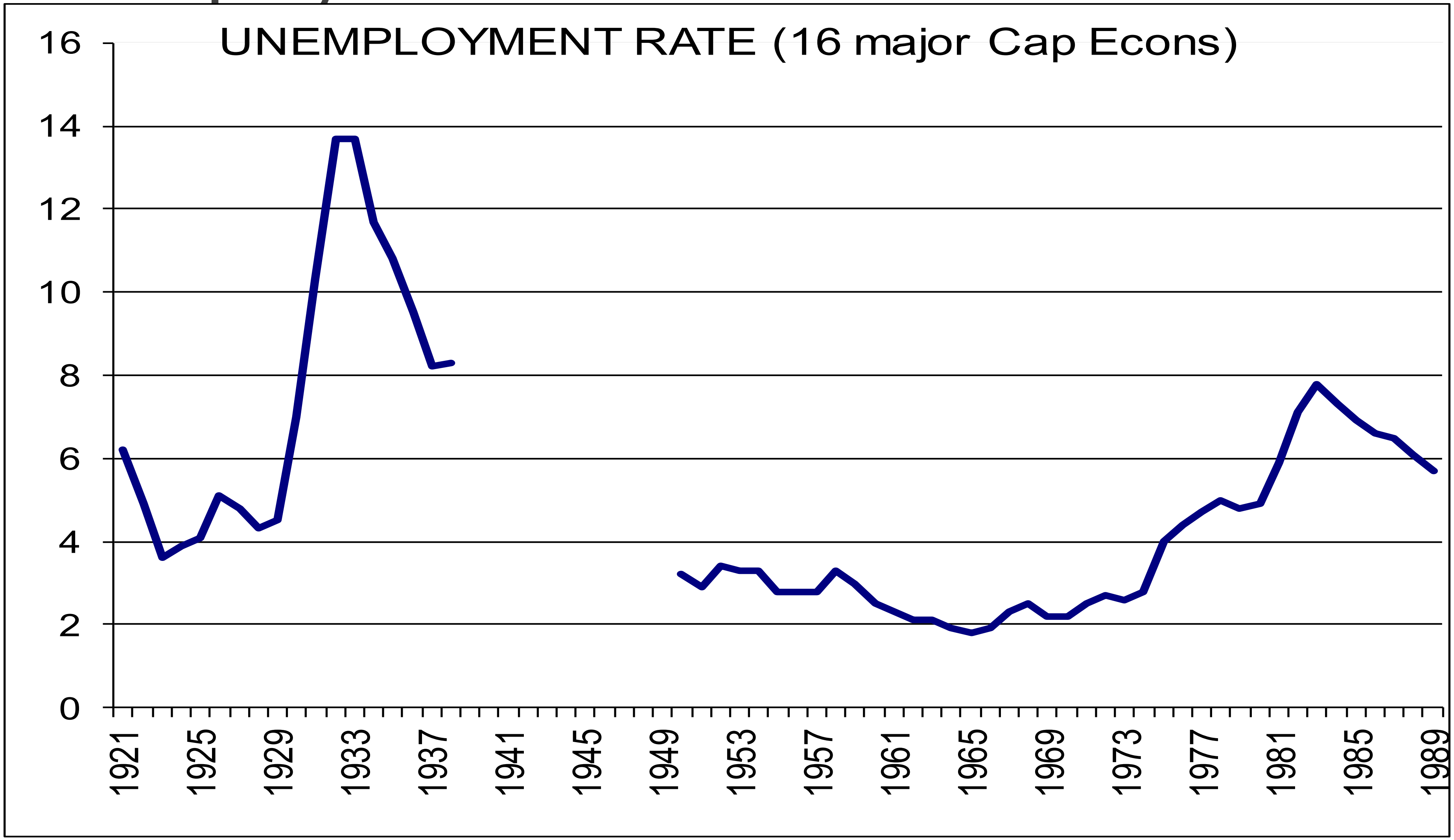
Crisis led to a (then unthinkable) situation of high unemployment and high inflation




# Why an Oil Shock?


- Inflation was building-up throughout the Golden Age (via growing wages and income rises)
- In the 1950s and 1960s the effects of this inflation were smoothed down by the real decline (!) in oil prices
- In the 1970s non-Western economies tried to adjust oil prices to inflation. Check:
  - “*Of course [the price of oil] is going to rise... Certainly! And how!... You've [Western nations] increased the price of the wheat you sell us by 300 percent, and the same for sugar and cement... You buy our crude oil and sell it back to us, refined as petrochemicals, at a hundred times the price you've paid us... It's only fair that, from now on, you should pay more for oil. Let's say ten times more*.” [Persian Shah interviewed by the *New York Times*, 12 December 1973.]

# Consequences of Oil Shock: Unemployment



# Inflation

| 16BigCap Inflation<br>(change in consummer price index; annual rate) | | |
|---|---|---|
| | 1950-73 | 1973-82 |
| | **4,1** | **9,6** |
| Lowest | 2,7<br>(US) | 4,4 (Switz) |
| Highest | 5,6<br>(Fin.) | 14,5 (GB) |
| | | Maddison, *The Role*…, p. 174, 188 |

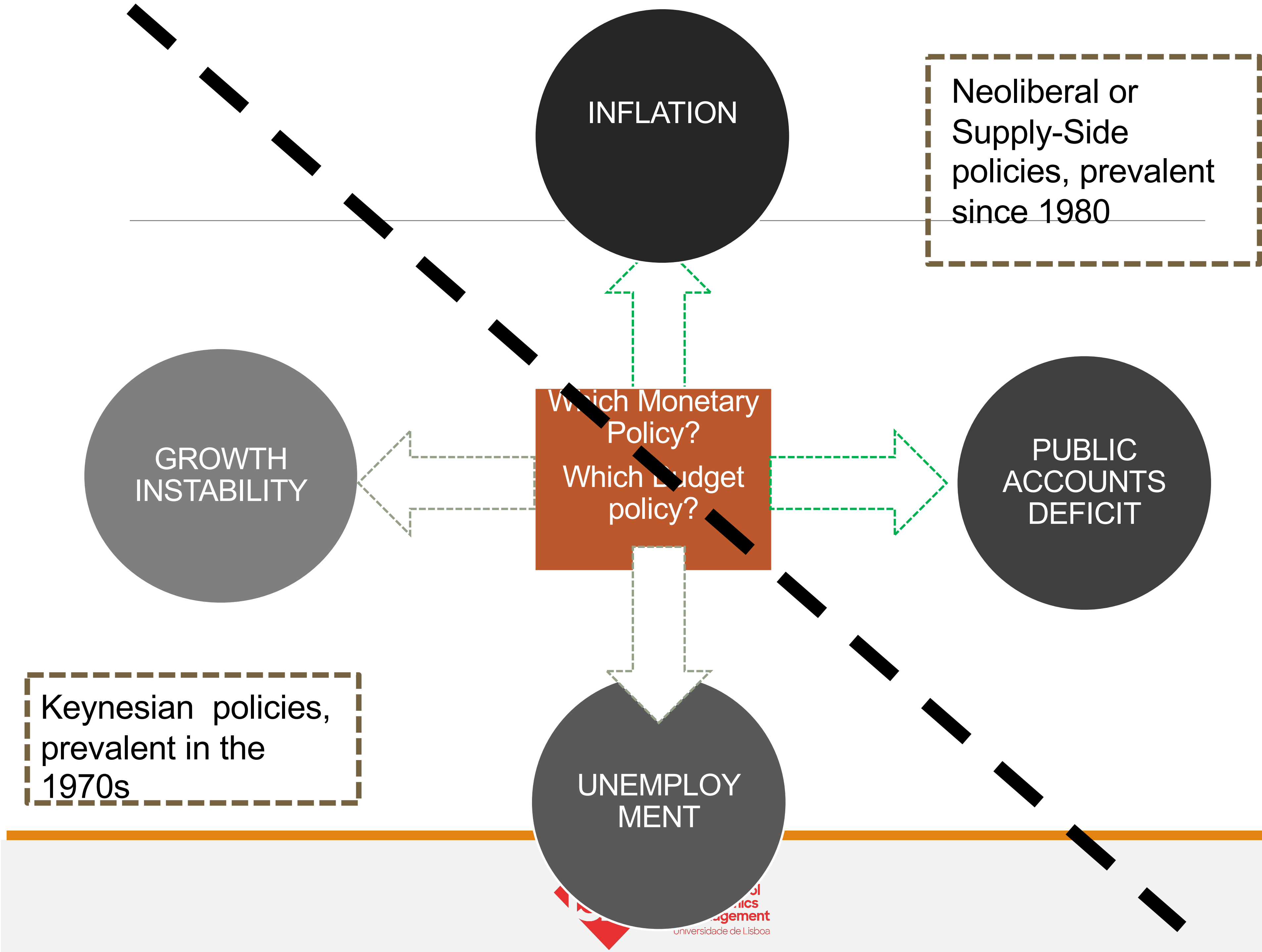
# External accounts deficit

| 16BigCap Balance of Payments Surplus (av.; % of GDP) | | |
|---|---|---|
| | 1961-73 | 1974-81 |
| | **-0,2** | **-2,0** |
| Lowest | -2,2 (Austrál.) | -5,1 (Nor.) |
| Highest | 1,6 (Italy and Bel.) | 3,4 (Switz) |
| | | Maddison, The Role…, p. 187 |

# Public Accounts Deficit

| | Public Accounts Surplus (average; % of GDP) | |
|---|---|---|
| | 1960-73 | 1974-81 |
| France | 0,5 | -0,9 |
| Germany | 0,6 | -3,1 |
| Japan | 1,0 | -3,5 |
| GB | -0,8 | -3,9 |
| US | 0,0 | -0,9 |
| **Average** | **0,3** | **-2,5** |
| Maddison, *The Role…*, p. 182 | | |

# 2. The End of the Golden Age


INFLATION
Neoliberal or Supply-Side policies, prevalent since 1980
GROWTH INSTABILITY
Which Monetary Policy?
Which Budget policy?
PUBLIC ACCOUNTS DEFICIT
Keynesian policies, prevalent in the 1970s
UNEMPLOY MENT

# The End of the Golden Age

Exhaustion of the growth forces

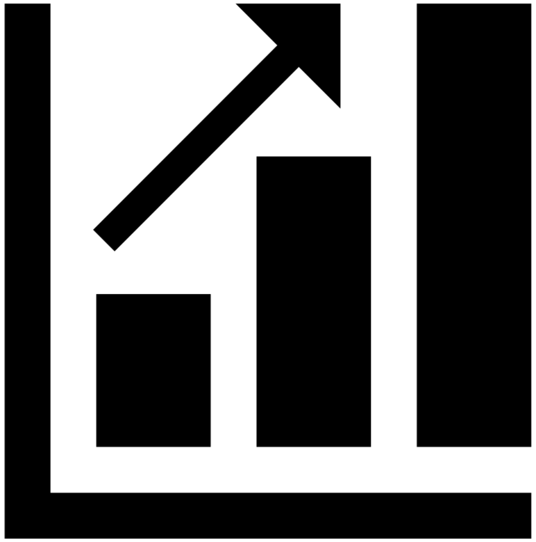
- Exhaustion of the catching-up (end of the 4th Kondratieff innovations)

International System

- Collapse of Bretton Woods and dollar standard
- Oil shocks and loss of competitiveness

Policy reasons

- Shortcomings of social market economy to face crisis became obvious



# 3. Growth after the Golden Age

# Reform-based Growth

Growth level on pair with pre-1914 period

Better conditions for Businesses

- Privatization and decrease of the fiscal burden
- Flexibilization of the labour market
  - Wages increases disciplined
  - Unions loose bargaining power
  - Easier hiring and firing

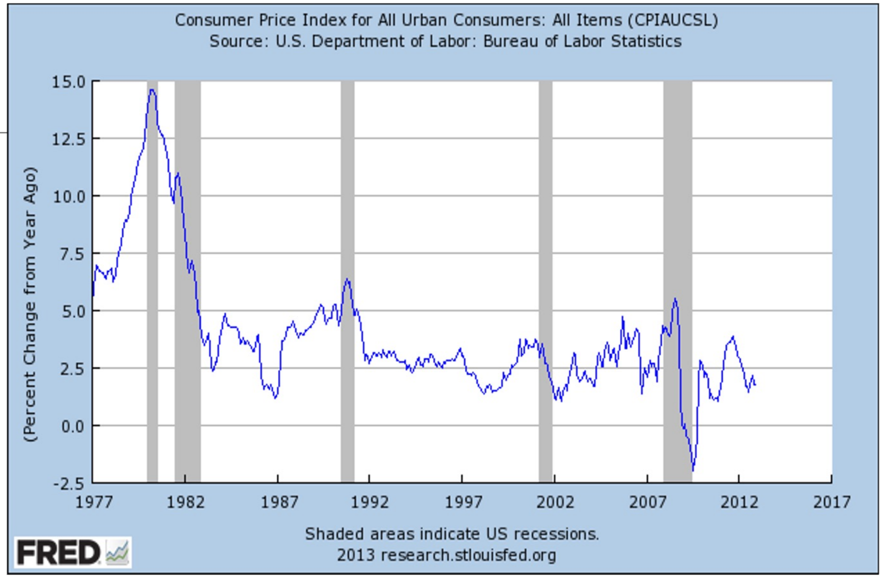
# Innovations in services

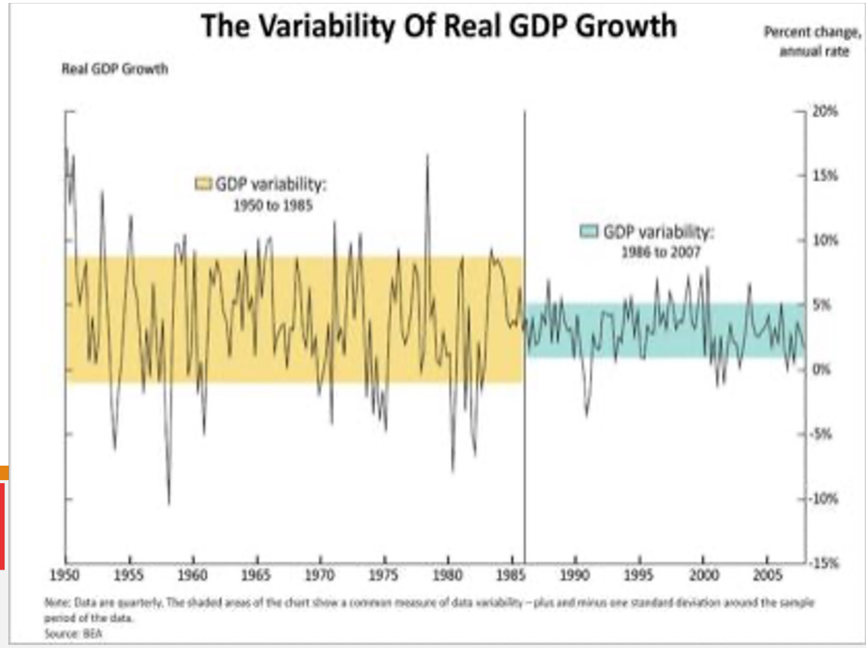
- Services see productivity increases, thanks to IT Technologies since the 1980s
- Privatizations and low taxes stimulate the entrepreneurial ventures and R&D (*supply-side economics*

Microsoft CEO Bill Gates, 1983. (© Doug Wilson/CORBIS)

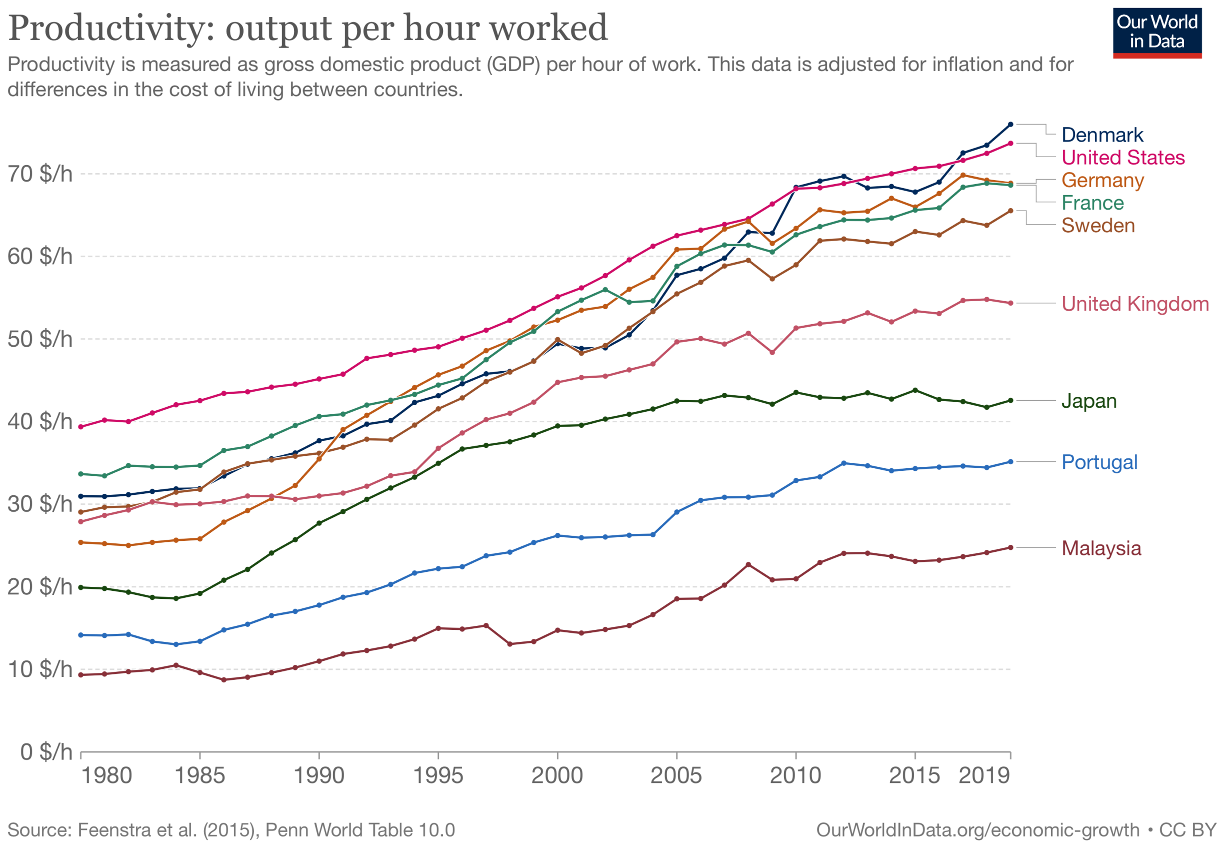

# The “Great Moderation”

- Since the 1980s, policy took *inflation-targetting* (2%) as the default as a priority
  - FED ignored unemployment
  - ECB, with the rationale was controlling inflation, inheriting the the *mindset* of Bundesbank
- Moderate growth
- Moderate interest rates for years (Central Banks), making credit cheap and stimulating excessive borrowing



# Margin of Convergence with the Leading Economy



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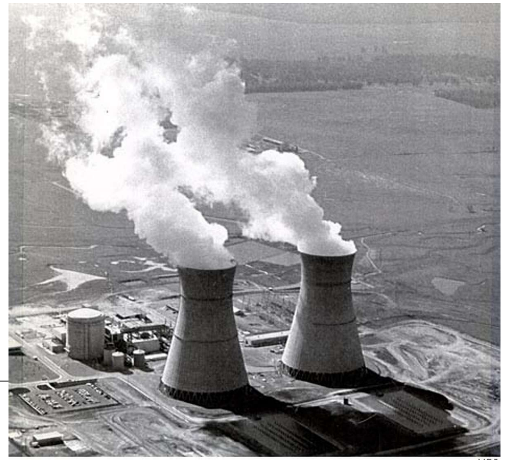
Source: 2020 OCDE

# Energy Price Stabilization

- Energy prices stabilised, as new oil reserves appeared, especially off-shore (North Sea, Gulf of Mexico and Alaska)



- New, alternative sources of energy (mostly nuclear



- Start of R&D on renewables)

- Adaptation of technology:

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