


# ECONOMIC AND BUSINESS HISTORY 25/26

---


## LECTURE 15: THE OIL CRISIS




ISEG  
Lisbon School  
of Economics  
& Management

1


PLAN



1. Oil Shock




2. The end of the Golden Age



3. Growth after the Golden Age


ACH @ ISEG
2

2



## 1. The Oil Shock

---




ACH @ ISEG

3

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

|      | Gold<br>(UK;<br>\$/ounce) | Oil<br>(Saudi;<br>\$/barrel) | Wheat<br>(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                     |

4



Management  
Lisbon School of Economics & Management

HES 2016 ACH

4



## Yom Kippur, Oct 1973


Yet another anti-Israel Arab League, this time with active Soviet and Cuban support

With last-generation Soviet equipment, Egyptians and Syrians surprise Israel and attack two fronts, overcoming strong defenses (Suez Canal and Golan Heights)

After one week, when Israel was facing defeat, America intervened, risking nuclear war w/ Russia and support Israel w/ equipment: airplanes and tanks (Operation Nickel Grass)

Western logistic support (Dutch, English, Portuguese) decisive


ACH

5



## 1973 Oil Shock


OPEC countries agreed to abruptly decreased output levels

- First rise in 1973 -4 (oil prices trebled 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



ACH @ ISEG

6

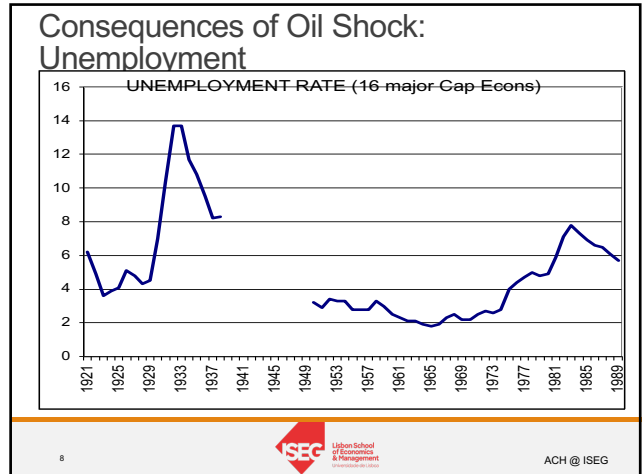
## Why an Oil Shock?



- 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.]


ACH @ ISEG

7



8

### Inflation

| 16BigCap Inflation<br>(change in consumer price index; annual rate) |            |             |
|---|------------|-------------|
|   | 1950-73    | 1973-82     |
|   | <b>4,1</b> | <b>9,6</b>  |
| Lowest  | 2,7 (US)   | 4,4 (Switz) |
| Highest   | 5,6 (Fin.) | 14,5 (GB)   |

Maddison, *The Role...*, p. 174, 188

9

### External accounts deficit

| 16BigCap Balance of Payments Surplus<br>(av.; % of GDP) |                      |             |
|---|----------------------|-------------|
|   | 1961-73              | 1974-81     |
|   | <b>-0,2</b>          | <b>-2,0</b> |
| Lowest  | -2,2 (Austral.)      | -5,1 (Nor.) |
| Highest   | 1,6 (Italy and Bel.) | 3,4 (Switz) |

Maddison, *The Role...*, p. 187

10

### 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    |

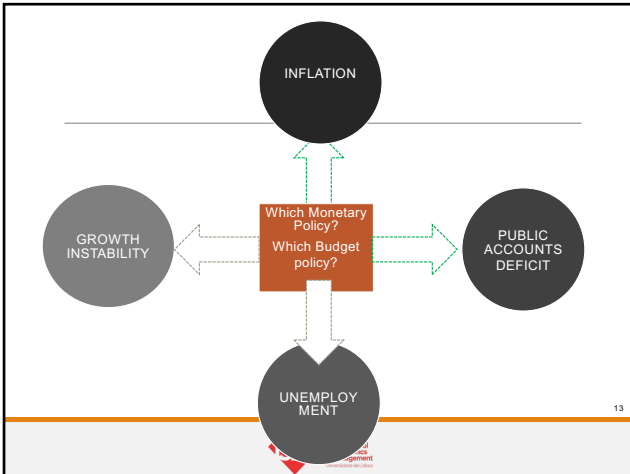
Maddison, *The Role...*, p. 182

11



## 2. The End of the Golden Age

12



13

## The End of the Golden Age

Exhaustion of the growth forces

- Exhaustion of the catching-up 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

14

## 3. Neoliberal Growth

15

## Reform-based Growth

After the Oil Shock, policy changes dramatically

With inflation, governments are no longer able (or willing) to defend full employment


As such, governments seek 'neoliberal policies', i.e. they seek to stimulate international competitiveness

This implies creating 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


16

## Neoliberal policy





F. Mitterand, elected France in May 1981 on a radical, left-wing platform known as the "110 Propositions for France", aiming to break with capitalism, with support of the Unions

- 
**Privatizations**
  - UK: 1979
  - France: 1986 (after nationalizations in 1981)
- 
**Flexible Labour Laws**
  - UK: 1979
  - France: 1986 (after 1 hour reduction in 1981)
- 
**Removal of Capital Controls**
  - UK: 1979
  - France 1983 (after more restrictions in 1980-1)



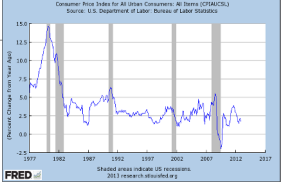
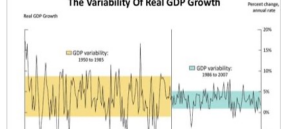
M. Thatcher, elected in May 1979 on a radical free-market platform, aimed at reducing the power of trade unions, privatizing state-owned industries, cutting taxes, curbing government spending






17

## 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 *mindset* of Bundesbank
- Moderate growth
- Moderate interest rates for years (Central Banks), making credit cheap and stimulating excessive borrowing











18

## 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:








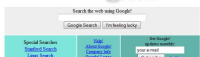






19

## 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*)

20