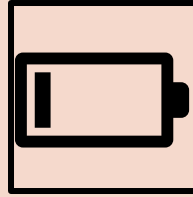


ECONOMIC AND BUSINESS HISTORY 23/24

LECTURE 14: THE OIL CRISIS



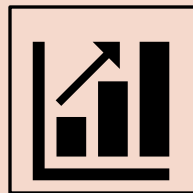
PLAN



1. Oil Shock



2. The end of the Golden Age



3. Growth after the Golden 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

4

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

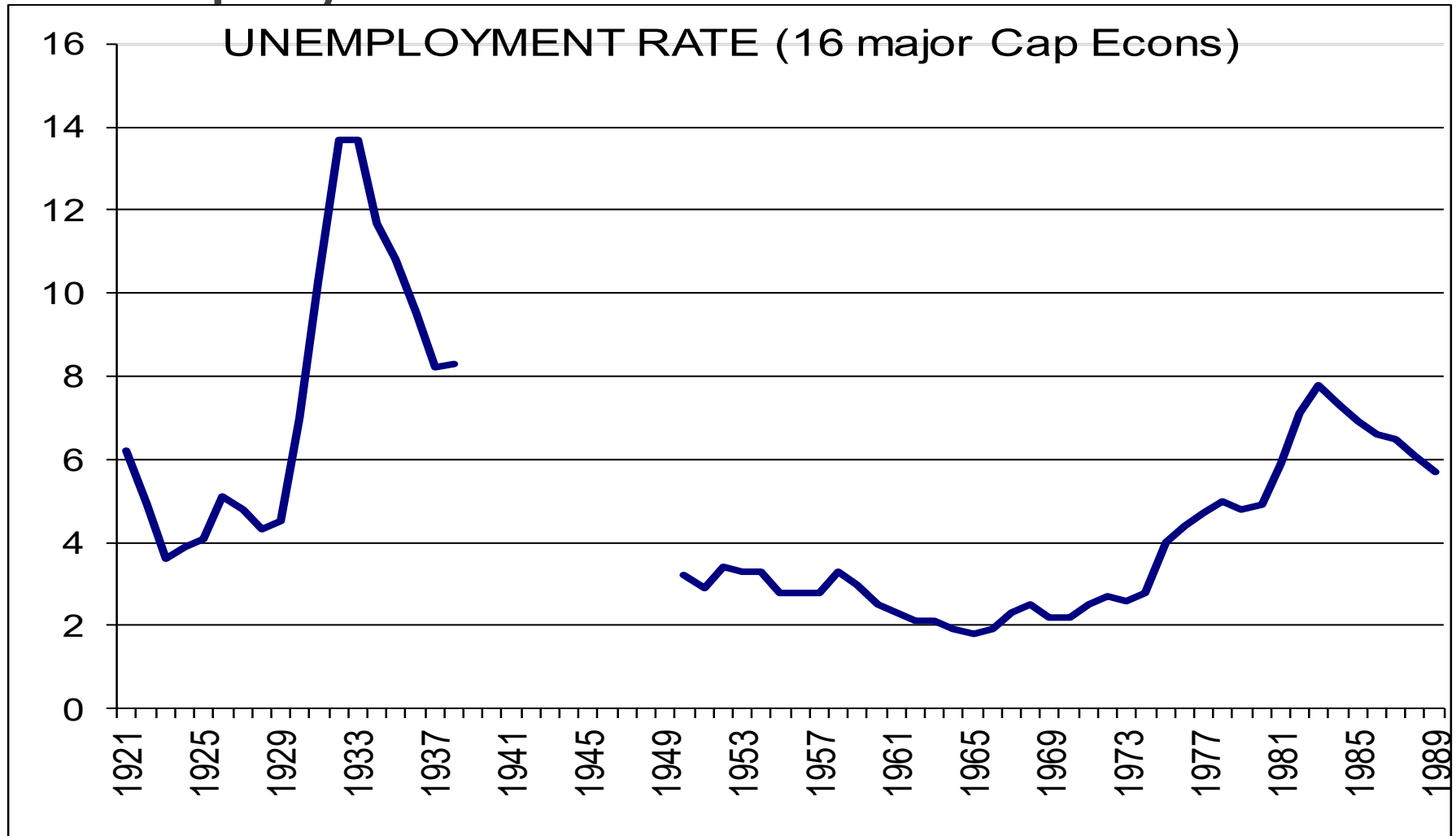


Why an Oil Shock?



- 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 (change in consumer price index; annual rate)

	1950-73	1973-82
	4,1	9,6
Lowest	2,7 (US)	4,4 (Switz)
Highest	5,6 (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

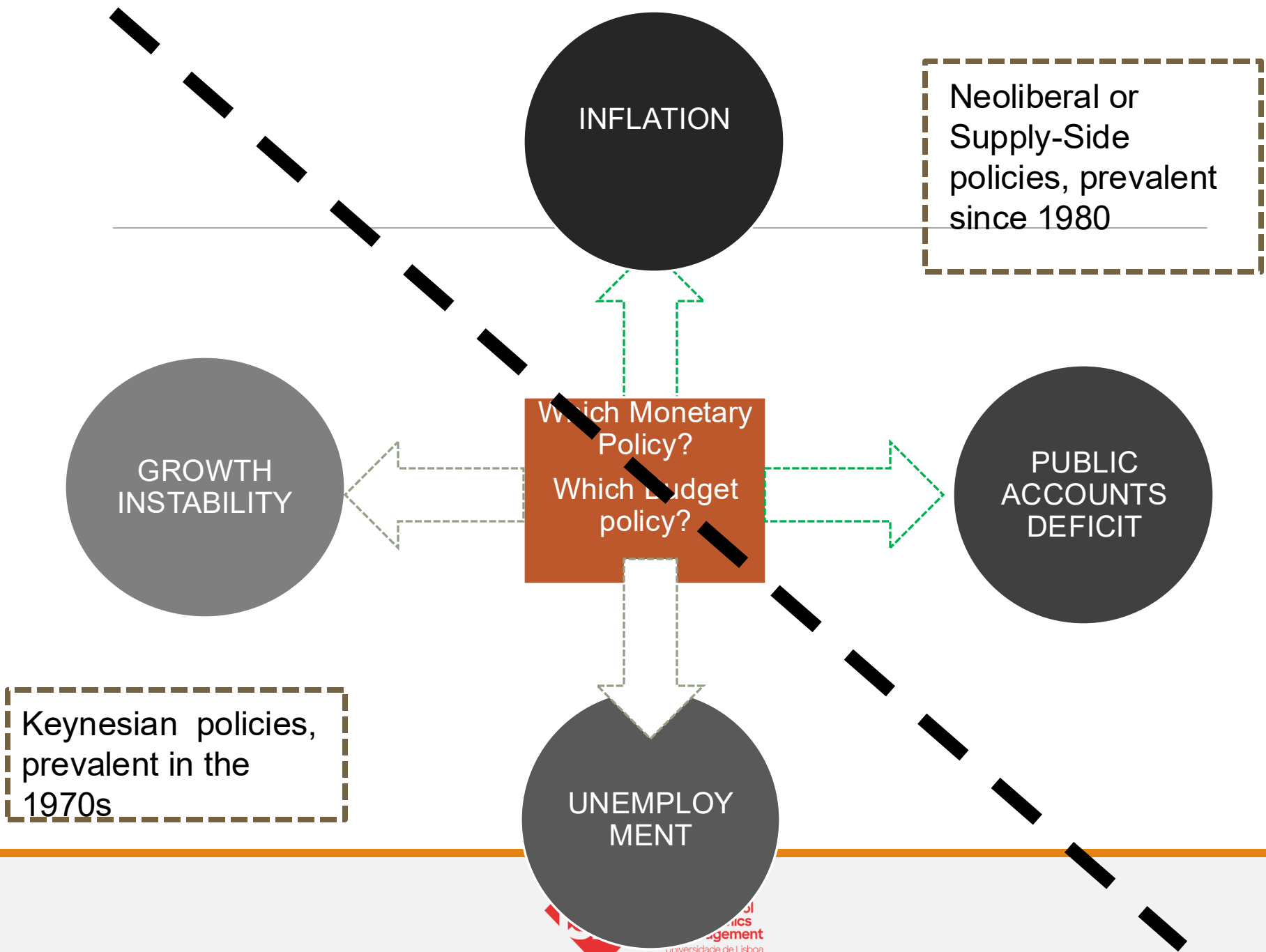
Public Accounts Deficit

	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



The End of the Golden Age

Exhaustion of the growth forces

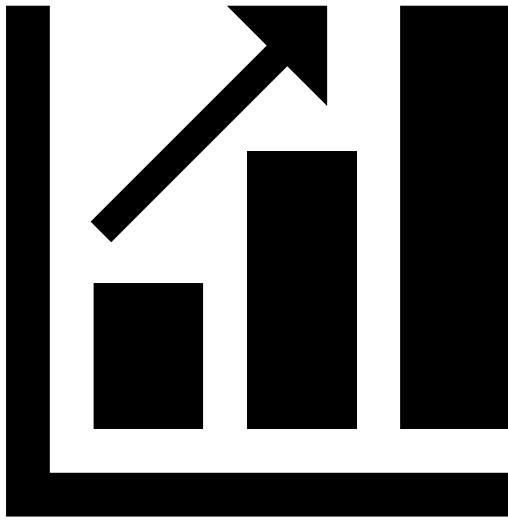
- Exhaustion of the catching-up (end of the 4th Kondratieff innovations)

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

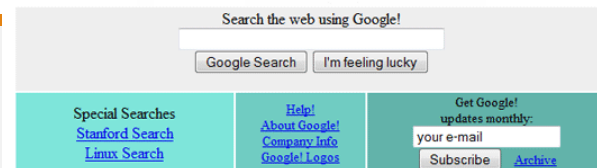
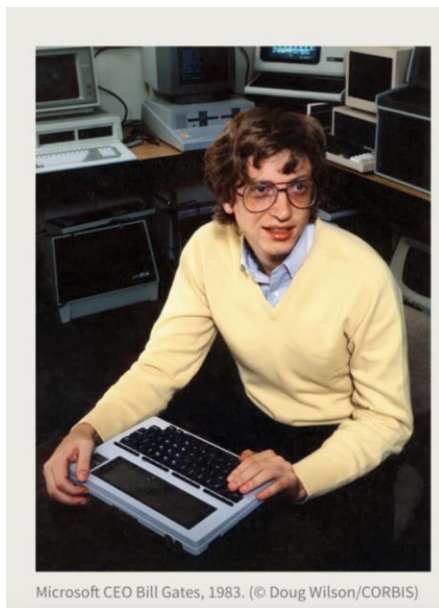
Growth level on par with pre-1914 period

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

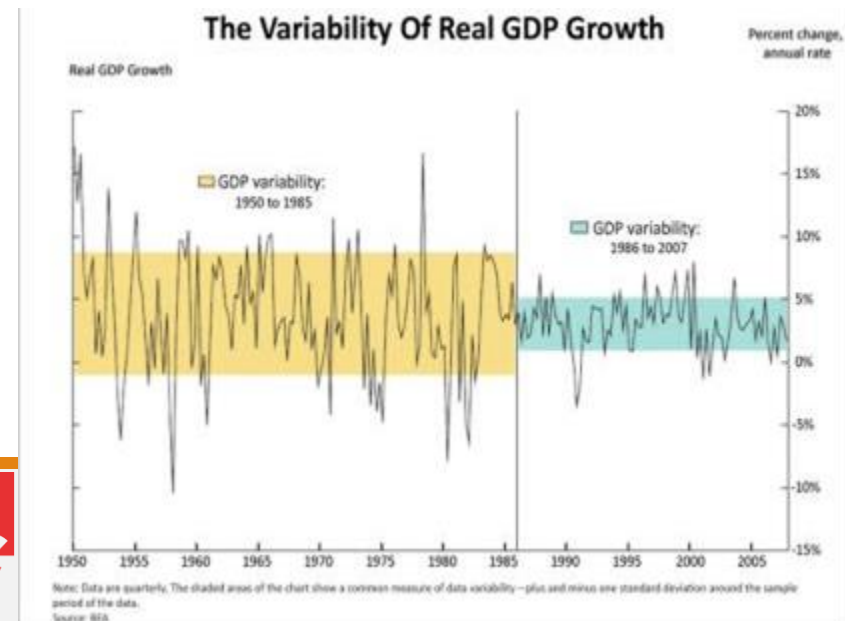
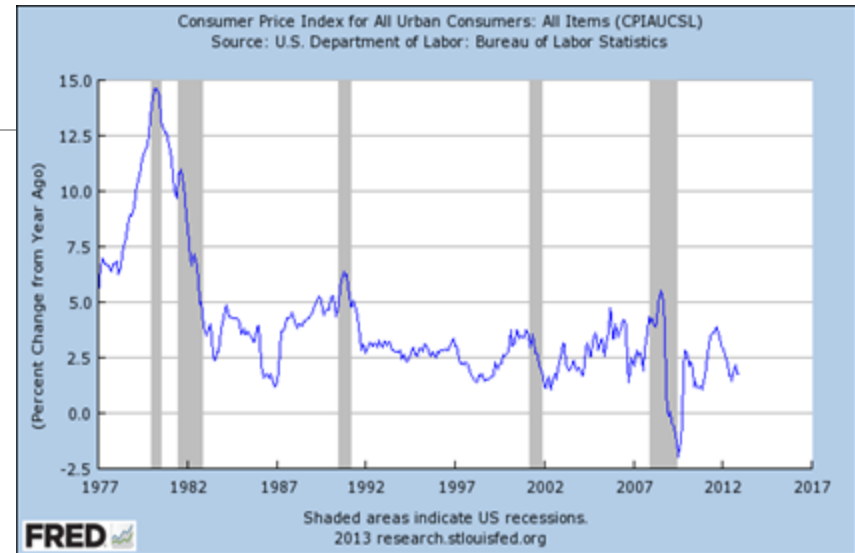
Innovations in services

- 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*)



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

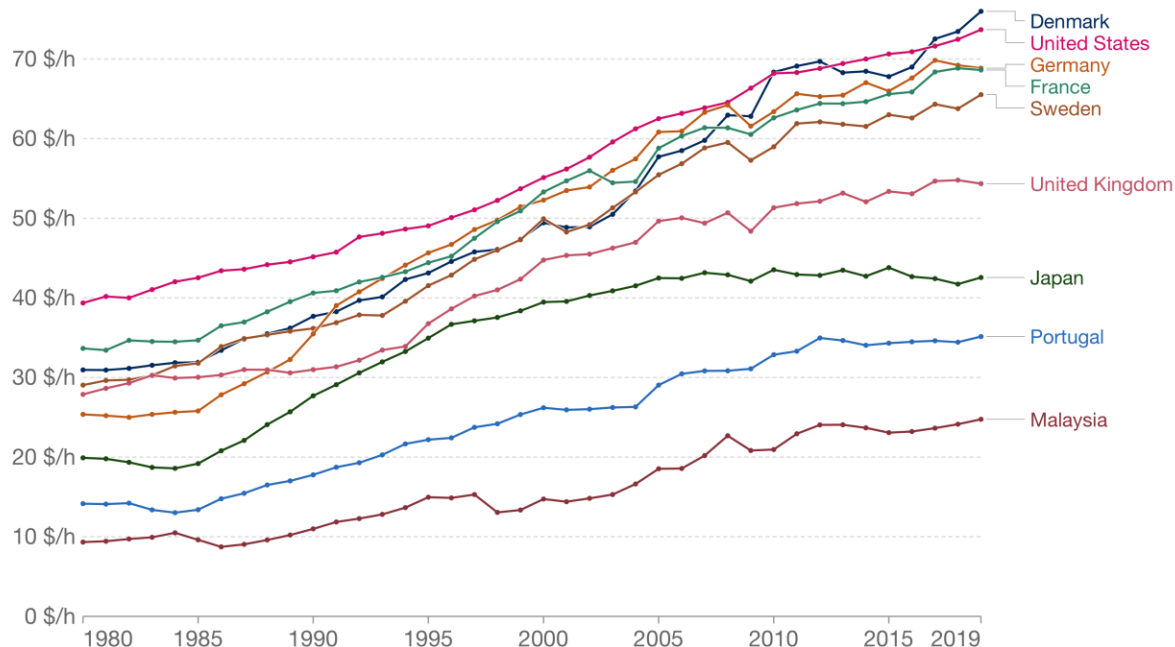


Margin of Convergence with the Leading Economy

Productivity: output per hour worked

Productivity is measured as gross domestic product (GDP) per hour of work. This data is adjusted for inflation and for differences in the cost of living between countries.

Our World
in Data



Source: Feenstra et al. (2015), Penn World Table 10.0

OurWorldInData.org/economic-growth • CC BY

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
923d761c-9da4-46d1-8999-0d3552d4555b)
- Start of R&D on renewables)
- Adaptation of technology:

