MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

„The oil crisis of 1973 in Great Britain"

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Arts (MA)

Wien, 2016 / Vienna 2016

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet:	A 066 805
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet:	Masterstudium Globalgeschichte und Global Studies UG 2002
Betreut von / Supervisor:	Univ.-Prof. Dr. Carsten Burhop

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Acknowledgements

The Master Program Global History and Global Studies gives me the enthusiasm to examine different historical processes through the use of several concepts like global connectivity and interaction. During my studies I felt myself more and more closer to the field of global history, especially when economic changes needed to be examine before, during, and after a crisis period in different regions of the world.

Foremost, I would like to express my sincere gratitude to the University of Vienna and this master programme for providing me the opportunity to gain a lot of new knowledge mainly in economic history, and deepen this stored knowledge in order to exploit it during my trip later in life.

I would like to thank my supervisor, professor Dr. Carsten Burhop who has challenged and inspired me at the same time, and gave me a useful guidance during the process of writing. The main motivating factors were his exciting, eye-catching, and practical lessons in which my interest also increased in the field of global history with the focus on economic and social aspects.

My sincere thanks also goes to Mag. Markus Gatschnegg and Mag. phil. Susanna Brossman for their help, without whom I would have been totally lost and helpless in the complex system of the university. They were/are always helpful whether it is about my master thesis or about the organizational issues of my study. I got a lot of encouragement during the years at the university sort by their supportive attitude.

Last but not least, I would like to thank my family and friends, who stood by me, kept me going along the way, and always reminded me where I am going, and what my goals are in the future for which it worth fighting for.

1) Introduction

When talking about crises most people associate it with the Great Depression first, or other financial crises; however, only a few think about the time of the oil crises. Despite of it the 1970's oil crises were especially a beloved field of research for many economic historians for a long time; moreover, many people would not even think that this topic is still a truly exciting territory to investigate.

In general it could be said that the outbreak of the oil crises were always preceded with a longlasting recovery. Most of the time it was not the immediate root cause that tended to be the most relevant; however, its influence after the period of the crises which was still recognizable for a long time. Understanding the 1970's events would allow us to make sense of the debates on energy sources which are still quite frequent all over the world. The best precedent for this is the question of oil price decontrol which became a central issue throughout the past years. Another important result of the peak oil is that the human culture and the technological society did not have any other option than to drastically change. The continually decreasing living standards in the developed or developing areas could give a result of a potential economic collapse in the global economy. Therefore, it is clear that we need to understand each of the impacts for a better understanding of energy industry and energy problems in the world then and now.

As *Fiona Venn* once described in her book called *The oil crisis*, the years of the 1970's was "[t]he period of transition and change in the Middle East, in the oil industry in the world economy and in the international political scene."[1] *Catherine R. Schenk* formulated a similar perspective about the years of crisis but had a greater focus on the international economic relations in her book with the title of *International economic relations since 1945*: "[d]uring the 1970s the international economy was rocked by the collapse of the international monetary system and by successive oil crises. The days when sustained economic growth each year was taken for granted were over and new challenges of unemployment, recession, and inflation undermined the cohesion of the international economy."[2] It is clearly true that the oil crisis of 1973 could be considered as a serious turning point in the world economy. However, according to the authors of *The shock of the global – The 1970s in perspective,* it is also important to address the followings: "[t]he crises of 1970s were not just economic ones, but they involved a

[1] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 5.
[2] Schenk, Catherine R. 2011. *International economic relations since 1945.* Routledge, p.55.

political, a social, and a cultural context as well […] the 1970s must be seen as a time of crises, but a special one because these crises were *"personal"* crises as well."[3]

This thesis has been inspired by books, studies (historical studies, case studies, economic analysis, comparative studies in international context) papers *(Business Review, Hungary, Working Paper Series, The Economist)* and other web sources which are dealing with not only the consequences, but also focusing on root causes, exact events, and decisions during the 1970's. These sources are mostly from the fields of global history and international relations and the only one common point according to these materials is the role of oil crises in the global economy. This topic was already the central issue of several studies before, with a view to this the main purpose of this investigation is to analyse the events of the oil crisis of 1973 in general – discussing the question of *"What happened in the world?"*– and intends to focus on only one great empire: *Great Britain*. Why exactly this country? The value of this research lies on its individual worth because thousands of analyses could be found discussing the role of the first oil shock in the economic life of the United States, China, or in the socialist countries; however, from Western Europe the area of Great Britain is full of curiosity.

As for *J. F. Wright,* Britain's special situation could be characterized with the following features: "[h]er geographical position on international trade routes, her natural harbours, her self-cleansing estuaries, the fertility of her soils, the variety of her non-metallic minerals were all of some value and were indeed the basis of many thriving exporting enterprises […] the UK's international position depended primarily on her competitiveness in manufacturing processes."[4] Many economists have insisted to the fact that the post war period (after 1973) was a relative decline for the British economy, for instance as for *Fiona Venn*: "[t]he Biritsh economy was struggling in 1973; not only with the problem of inflation and currency instability, but with standing economic problems and high level of unemployment."[5] However, it is important to keep in mind that there were different reactions from different countries to the events of the oil crisis in 1973. There were those, whose response was quite straight because of their economic policy; however, in other countries the reaction was really slow, therefore, the economic impact of the recession was also not so drastic, as it was in Great Britain. As a result, despite the decreasing tendency many economists have insisted to the fact that "[t]his post war

[3] Ferguson, Niall; Maier, Charles S.; Manela, Erez; Sargent, Daniel J. 2011. *The shock of the global-The 1970s in perspective.* Belknap Press, p. 1-2.
[4] Wright, J. F. 1979. *Britain in the Age of Economic Management – An Economic History since 1939.* Oxford University Press, p. 17.
[5] Venn, Fiona. 2002. *The Oil Crisis.* Pearson Education Limited, p. 158-159.

period was all in all a successful one because the relative decline halted and the scope for catch-up growth was much more limited than in earlier periods"[6] – as it was stated by *Roderick Floud* and *Paul Johnson*. The present thesis is going to analyse this challenging debate and try to fulfill an in-depth research in the field of international and British economy in order to get answers for the proposed research questions, which will be outlined in the next pharagraph.

It is important to explain the research method of this thesis before introducing the appointed research questions. The research method could be divided into two main parts: first, a qualitative (literature) analysis which involves the examination of different books, articles, archives and acts in this topic; second, a quantitative (economic) analysis with the help of statistics, graphs, and charts in connection with the oil crisis of 1970's. The present paper is going to provide answers for two research questions, namely: (1) *"Was the 1973 oil crisis an important turning point in the global/world economy?"* and (2) *"Was the 1973 oil crisis an important turning point for Great Britain? Was it really such a bad current economic downturn for the country?"*

Concerning the structure of this thesis, after the introduction a field specific terminology will be introduced dealing with the most important terms, just like petroleum, major oil consuming and producing countries, petroleum useage, world energy consumption, oil price fluctuations, economic crisis, oil crisis, and oil embargo. After it the paper is going to be divided into two main parts; first of all a general overview of the world economy and secondly a specific overview of Great Britain will be shown. It is important to note that these two parts of the thesis are structured by the same way because both of them are going to discuss the situation before 1973, after 1973 and during the time of the oil crisis of 1973. In the conclusion these two parts will be compared, based on the central issue of the topic: *the role of the oil crisis of 1973 as a turning point in the world economy and in Great Britain.*

[6] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 55-56.

2) Field specific terminologies in connection with the oil crisis

2.1. Petroleum

2.1.1. Defining petroleum

Petroleum is a word rooted in the Latin language and comes from "petra", meaning "rock", and "oleum", meaning "oil". From a geological point of view, *the American Heritage Dictionary* defines petroluem as:

> "[a] thick, flammable, yellow-to-black mixture of gaseous, liquid, and solid hydrocarbons that occurs naturally beneath the earth's surface, can be separated into fractions and is used as a raw material for a wide variety of derivative products."[7]

According to *Fiona Venn*, the economic role of the petroleum has been emphasised that between petroleum consuming and producing countries; in case they are not the same; petroleum plays a necessary part in diplomacy between the two countries. Therefore its value can be mentioned on the international level as well. It follows, that for many consuming countries this kind of "diplomacy" was essential in order to reach their economic well-being.[8]

2.1.2. The major oil consuming and oil producing countries after 1945

It is important to mention the major oil producing and consuming countries after 1945 in order to understand the outstanding importance of this vital commodity as it was petroleum. Most of the *producing countries* - Venezuela, Iran, Iraq, Saudi Arabia and Kuwait – were from the Middle East and had one common goal: "greater share of the oil incomes by controlling supply". That was the main reason why they have founded the Organisation of Petroleum Exporting Countries (OPEC) in 1960. At the end of the 1980s and beginning of the 1990s the power of OPEC started to weaken especially in the field of price-fixing because of some internal problems and also the presence of other producing countries such as Russia, Mexico, Norway, the United Kingdom and Colombia. Regarding the *consuming/importing countries* it could be said that they were "the most heavily industrialized countries" such as the United States, Western Europe and Japan. According to *Jean-Paul Rodrigue*, several *important transport routes of oil* could be discerned and he describes them as follows: "[m]ore than 100 million tons of oil are shipped each day by tankers. About half the petroleum shipped is loaded in the Middle East and then shipped to Japan, the United States and Europe. Tankers bound to Japan are using

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[7] American Association of Petroleum Geologists. American Heritage Dictionary. 2008-2012. "*What is petroleum?*". Available online at <http://www.petroleumgeology.org/whatis.cfm> (27 Oct. 2015; 10: 45)
[8] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 4.

the *Strait of Malacca* while tankers bound to Europe and the United States will either use the *Suez Canal* or the *Cape of Good Hope*, peding the tanker's size and its specific the destination."[9]

2.1.3. What is petroleum used for and how did this change over time?

Regarding *Bennett H. Wall*, the 19th century was the starting point of the *petroleum use in history* because the discovery of petroleum meant a new form of fuel. At first, it was used as "an illuminant for medicine" and as "grease for wagons and tools" by settlers, not much later an oil lamp was invented by John Austin, which was more commonly known as a "kerosene lamp". In the early 1900s the eye-catching sales rates of gasoline (for automobiles and then for airplanes) exceedingly demonstrated the growing importance of petroleum throughout history. During the World War II more and more research took place with an increasing enthusiasm about petroleum products (tnt and artificial rubber). What is certain that petroleum could be found in nearly everything that people use today in their everyday life. It is used to make various plastics, synthetic materials, chemical products and household items (shampoo, toothpaste, lipstick, washing powder, clothing, contact lenses). Last but not least, one of the most important usage form of petroleum – besides *transport and industry* – is its *heating* function, namely the liquid form of petroleum often used for boilers in buildings.[10]

2.1.4. The share of oil in the world energy consumption from the 1970s till nowadays

The following graph (see figure 1.) gives information about *the world energy consumption from the 1970s till nowadays*. It is clearly seen that the three main energy sources during this period are *the oil, coal, and natural gas*. The nuclear energy sources, hydro energy sources, and other renewable sources based on the graph data have only secondary importance. In the case of oil consumption an increasing tendency can be seen before the oil crisis of 1973 and after the second oil crisis in 1979, so from the beginning of the 1980s. Another important source is the coal which has a growing period before 1990 and after 2000. The graph displays that the third important element, the natural gas shows continual rising values. What is interesting that the other renewable energy sources started to increase after 2005 and extend their importance.

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[9] Rodrigue, Jean-Paul. The geography of transport systems. *"International Oil Transportation"*. Available online at <https://people.hofstra.edu/geotrans/eng/ch8en/appl8en/ch8a1en.html> (13. Febr. 2016; 19: 17)

[10] Wall, Bennett H. History. *"Oil industry".* Available online at <http://www.history.com/topics/oil-industry> (13. Febr. 2016; 22: 06)

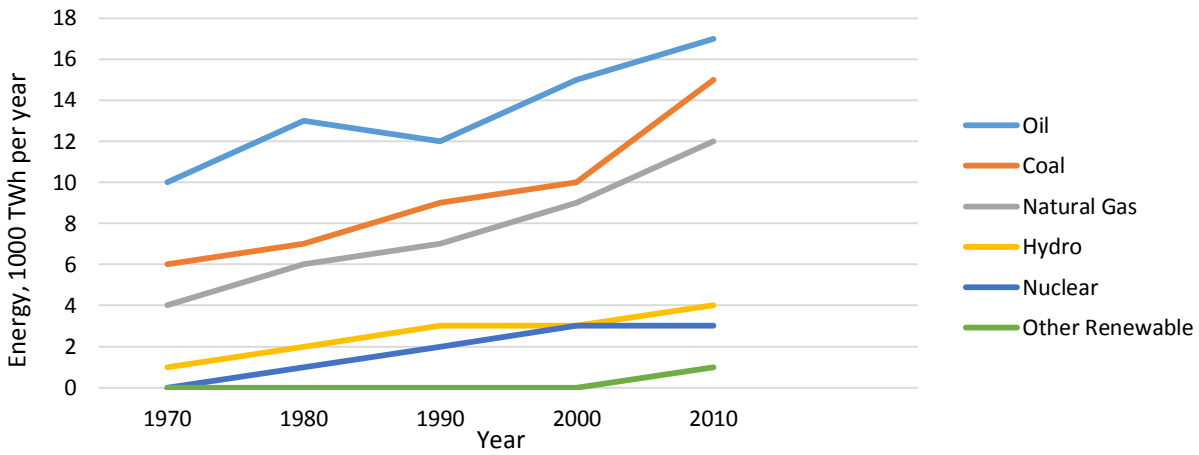

Figure 1. World energy consumption.

Graph from Con-struct - BP Statistical Review of World Energy. (Licensed under CC BY - SA 3.0 via Commons) 2015. Web. 16 Nov. 2015. n. pag.

<https://commons.wikimedia.org/wiki/File:World_energy_consumption.svg#/media/File:World_energy_consumption.svg>

2.2. Oil price fluctuations and their impact on economic performance: demand-side and supply-side effects

What is certain, at least, based on *Michael Rauscher*'s opinion, is that drastic *oil price fluctuations* have always played an important role in the history of world petroleum market since the beginning of the seventies. This could be justified with the following data, regarding that before the first oil crisis, in 1972, the starting point was 2$ per barrel then this amount increased after the first oil crisis to 35$ per barrel in the 1980s, finally with a slow cutdown the price fell to 13$ per barrel in 1986. According to Michael Rauscher's findings, after the Second World War petroleum became the most important energy source, since during the 1950s and 1960s the petroleum price was quite low, compared to other energy sources like coal or firewood, therefore the petroleum took over the lead in the market. As Rauscher says in his book "[t]he influence of the oil price on economic performance of petroleum-importing countries is twofold, we can distinguish two types of effects: *demand-side* and *supply-side effects*."[11]

What do these two types mean in this context? As regards the demand-side effects, the oil price increase was followed by a "loss of real purchasing power" in the importing countries, and this consequence created stagflationary tendences in the economy. On the other hand,

[11] Rauscher, Michael. 1989. *OPEC and the Price of Petroleum – Theoretical Considerations and Empirical Evidence*. Springer-Verlag Berlin, p. 1-2.

supply-side effects connected to productivity slowdown which results decreased output rates and increased unemployment rates.[12]

Keith Sill in his article called *The macroeconomics of oil shocks* examines the effects of oil price changes on the economy and discusses the relation between oil prices, economic growth and inflation as well. According to the senior economist, oil prices could have significant influence on the economy in many different ways.[13]

It could be said that oil price increases most of the time result slowing-downs in economic growth; however, it would be a big mistake to generalise this fact because recession period is not always the outcome of oil price growth. Between the period of *1940 and 1970* the prices were very stable, *from the early 1970s to the early 1980s* a sequential growth can be noticed, after the first oil crisis from *1974 to 1978* the prices showed again a relative stability and the next big round of oil price increases came with the Iranian revolution in *1979*. It is also important to mention that higher oil prices evoked the phenomenon of energy efficiency, such as energy conservation, fuel-efficient cars and energy-efficient equipments for industries. The oil price changes are also today a permanent phenomena because based on observations *since the 1980s* these changes are more common than they were in the past.[14]

As for *Ine Van Robays*, there is a strong relationship between macroeconomic uncertainty and the impact of oil shocks. It could be said based on the writer's research that uncertainty could have an influence on the decision-making process of economic agents, moeover it could also control the effects of oil shocks on economy, oil prices and oil production.[15]

2.3. Economic crises and oil prices – How do they connect?

It is clear regarding the findings of the *Market Realist* that there is a huge bilateral interference between the changes in economy in addition to the oil price changes. The slowness of the economic growth comes in a linear relation to a declining demand. The determinant factor during an economic crises is the *fall of the economic growth*, therefore the demand also declines

[12] Rauscher, Michael. 1989. *OPEC and the Price of Petroleum – Theoretical Considerations and Empirical Evidence*. Springer-Verlag Berlin, p. 2-4.
[13] Sill, Keith.2007. "The Macroeconomics of oil shocks". *Business Review*, p. 1.
[14] Sill, Keith. 2007. "The Macroeconomics of oil shocks". *Business Review*, p. 1-2.
[15] Robays, Van Ine. 2012. "Macroeconomic uncertainty and the impact of oil shocks". *Working Paper Series,* No 1479, p. 20.

and this has a serious impact on oil prices, so that is the way how the economic crises and oil prices connect to each other.[16]

Talking about economic crises, often means talking about economic "transitions" wherethrough every time newer and newer results came into the world about how to handle these changes and how governments should be appropriately prepared for these situations. What is certain, is that the West has definitely been through a long period of crisis in the 1970s.[17]

2.4. World oil price changes from 1949 to 1980

The continuously changing oil price and in parallel the simultaneously emerging stagflation from the 1970s and 1980s more and more increased the attention of the economic workers towards the economic impact of the oil price. One thing could be safely said, that the oil price has a significant impact on the different economic trends. As regards economic growth, not just the fact of *oil price change* but the *oil price fluctuation rate* could be also a deciding factor. Therefore, the oil price became over time *the most observed economic phenomenon* up to this day, furthermore in the future it will definitely keep its significance. However, those factors are also really importat which affect the value of the oil and its fluctuation rate. It is clear that the *economic growth* or the *recession* through the demand react to the oil price. The size of oil price and its volatility affect the corporate sector, the residential sector and the economic policy of the states as well. For the companies the oil is a factor of production and with the oil price increase the production resources becoming more and more expensive. The level of the oil price has a huge impact also on the *capital market* and on the *share prices* in direct and indirect ways too. The *direct impact* could be experienced through the changed corporate and input structure, until the *indirect impact* through the monetary policy. In the case of the *UK* there is *no clausal relationship* either way, neither the volatility of oil price nor the volatility of capital market. This fact is definitely not surprising because the UK has relevant oil reserves, therefore the changes in demand have not so huge impact on the world economy. The short-term volatility of oil price has a pivotal role in the life of the oil exporting countries, but it is also important to mention that the capital market volatility of the oil importing countries causes the volatility of

[16] Market Realist. "*How an economic crises affects the price of crude oil?*". Available online at <http://marketrealist.com/2015/01/economic-crisis-affects-price-crude-oil/> (29 Oct. 2015; 14: 47)
[17] Ferguson, Niall; Maier, Charles S.; Manela, Erez; Sargent, Daniel J. 2011. *The shock of the global-The 1970s in perspective*. Belknap Press, p. 21.

oil price. In short, it could be said that the *oil price change has a significant impact on the economy only in the long run.*[18]

The following graph (see figure 2.) gives infomation about the *world oil price changes from 1949 to 1980*. It is clear that between 1949 and 1973 the world oil price fluctuates between 4$ and 6$, then in just one year, after the first oil crisis in 1974, the oil price increased fivefold and it reached the value of 20$. Again, after one year in 1975 the oil price was around 18$, so it started to fall back a little. Until 1977 it increased by 2$, then until 1978 it started to decline again to 18$. Between 1978 and 1979 the oil price doubled and reached the value of 36$ and after the second oil crisis in 1979 it just continued this growing trend.[19]

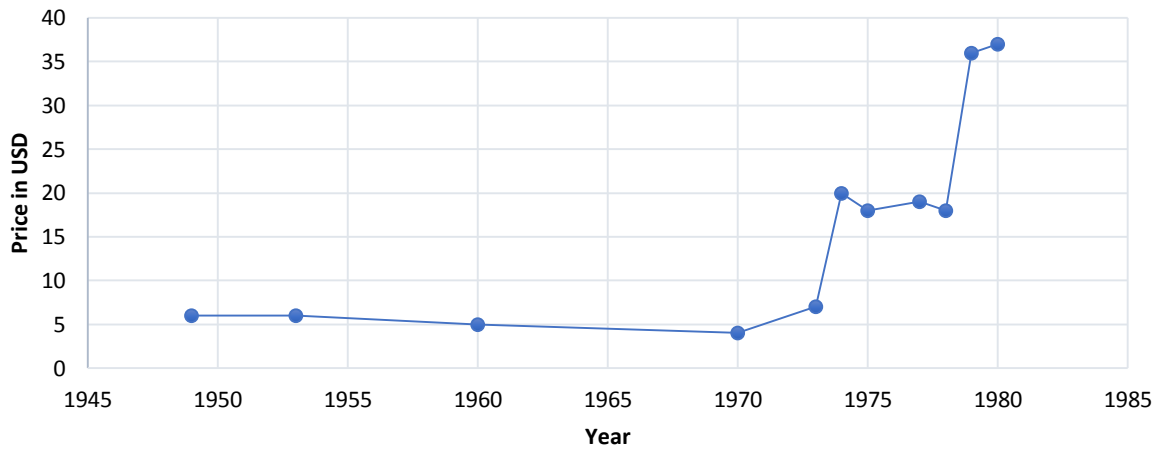

Figure 2. World oil price changes from 1949 to 1980.
Graph from Robert D. Lifset, New Understanding of the American Energy Crisis of the 1970s, Historical Social Research, Special Issue: The Energy Crisis of the 1970s. 2014. Vol. 39, p. 25.

In short, it could be said that between *1949 and 1973* the value of the oil price was quite stable and *after the first oil crisis till the early 1980s* it showed variable values; however because of the minimum differences this period was relatively stable, the extent of fluctuations showed outstanding results only in the year of *1974 and 1979*.

2.5. What does the oil embargo mean?

Between these basic concepts one more definition has to be clarified regarding to the topic which is the *oil embargo*. As for *the Collins English Dictionary* an oil embargo could be

[18] Kotán, Gergely; László, Valéria; Sali, András. 2006-2007."How important is the oil? Or impacts and reactions between the oil and the capital market". *Budpest Stock Exchange, The Application of Kochmeister, Scientific Students' Associations Dissertation*, p. 2-8.; p. 46-48.
[19] Lifset, Robert D. 2014. "New Understanding of the American Energy Crisis of the 1970s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 25.

described as "a prohibition of the trade of petroleum from one country to another". [20] It might be said that the oil crisis of 1973 and the oil crisis of 1979 had an outstanding importance in the course of 1970s. Based on this, a question on how the oil embargo is combined with these facts can easily emerge. The answer is quite obvious; everything started with the oil embargo in October 1973.

[20] Collins English Dictionary. "*Definitions: oil embargo*". Available online at <http://www.collinsdictionary.com/dictionary/english/oil-embargo> (29 Oct. 2015; 16: 04)

3) Before 1973

3.1. The Suez crisis of 1956

It is important to introduce some relevant events from the 1950s as a historical background before the next section which will analyze the case of the oil crisis in 1973. The first one would be the *nationalization of the huge British holdings in Iran* in 1951-53 with the help of Mohammad Mosaddeq who was an Iranian political leader at that time. This was a local crisis therefore its effect was not so strong on the world market.

The second one is *the Suez crisis* which broke out in 1956 and ended with the nationalisation of the Suez Canal on 26th July, with the help of the Egyptian leader, Colonel Gamal Abdel Nasser. What was the role of this canal exactly? According to *Bamberg* "[i]t was one of the world's most strategic waterways, linking the Red Sea with the Mediterranean through the isthmus that joined the continents of Asia and Africa."[21]

3.2. The „seven sisters" of the petroleum industry

Who were they exactly? In the field of international oil industry they were seven huge oil companies dominating the mid 20th century oil production and distribution. These seven companies were the followings: *Texaco, Exxon, Mobil, Chevron* and *Gulf Oil* from America, respectively *British Petroleum* and *Royal Dutch Shell* from England. With the cooperation of these companies their most important aim was to control the international oil market with marketing agreements and ownership of oilfields of the Middle East. Their range of interests were mainly the relevation of untouched oil fields in Iran and Iraq.[22]

For this topic it is indispensable to mention in some words the history of the two English-root companies: the British Petroleum and the Royal Dutch Shell. The father of the *British Petroleum* company was William Knox D'Arcy. During its growth the name of the company has changed several times, it was called also as Anglo-Persian Oil Company, then Anglo-Iranian Oil Company and at the moment its name is British Petroleum.[23] In the case of *Shell*, it could be said that it was founded as Shell Transport and Trading Company in 1897 by Marcus Samuel. After the mergence with the company of Royal Dutch in 1906 it was reborned as Royal

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[21] Bamberg, James. *British Petroleum and Global Oil 1950-1975 - The Challenge of Nationalism*. 2000. Cambridge University Press, p. 75.
[22] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 33.
[23] Sampson, Anthony. 1978. *The Seven Sisters: The great oil companies & the world they shaped.* Kossuth Publisher, p. 86-87.

Dutch Shell and today its name is still the same.[24] Shell has always been of great importance for the economic life of the mother country. The company was established originally as an oil-merchant company whose main task was the construction of the oil import into the UK. It is also important to highlight that the company of Shell is a real international company with hundreds of variuos face, among others the owners of the stocks are British, American and Dutch.[25] The partition ratio of board members are 60% in Dutch and 40% in British, in addition most of them are onetime senior officials or soldiers. The oil stocks of the Persian and Iranian Gulf made the BP one of the biggest oil companies in the world. Overall, it could be said that between the government and the two oil companies exists a rational connection which implies that the government helping to reach the potential concessions and in return the BP providing information to the government, that way everyone wins because the government has no say in the commercial decisions of the company.[26]

By signing the Theran and Tripoli agreements in February and April 1971 the main aim was to stabilize the international oil industry. In September the OPEC started to discuss participation and partial nationalisation with the oil companies which led to a long term agreement on a future oil supply control shock.[27]

The decade of 1960s could be described as a decade of economic boom and hope for well-being in Western Europe and the United States. As *Elisabetta Bini and Henning Türk* confirm, the Suez Crisis of 1956 and the failed embargo of 1967 during the Six-Day War were relevant warning signs.[28] Before moving on to discuss this problematic period it is important to mention the *Six-Day War* in order to clarify the historical background. Regarding the Encyclopaedia Britannica, the Six-Day War, also called June War or Third Arab-Israeli War, took place in June 1967 and this counts as the third Arab-Israeli War. In order to understand the way to the oil crisis of 1973 and its connection to the history of the Middle East territory, one should first understand the Six-Day War. It could be stated that this war can be marked as a "new phase" in

[24] Sampson, Anthony. 1978. *The Seven Sisters: The great oil companies & the world they shaped.* Kossuth Publisher, p. 74-81.
[25] Sampson, Anthony. 1978. *The Seven Sisters: The great oil companies & the world they shaped.* Kossuth Publisher, p. 30-33.
[26] Sampson, Anthony. 1978. *The Seven Sisters: The great oil companies & the world they shaped.* Kossuth Publisher, p. 287-290.
[27] Bamberg, James. *British Petroleum and Global Oil, 1950-1975 - The Challenge of Nationalism*. 2000. Cambridge University Press, p. 467.
[28] Bösch, Frank; Graf, Rüdiger. 2014. *Reacting to Anticipations: Energy Crises and Energy Policy in the 1970s. An Introduction*. Gesis, p.11.

the conflict between Israel and the Palestinians in the occupied territories under Israeli rule.[29] Without any doubt the biggest loosers of this war were the Arab countries, therefore the oil export was closed.

Due to the war in the Middle East in 1967, the Suez-canal was locked by the authorities and this step created a new situation in the history of transport by sea. The initial shorter routes were changed to longer ones which circumnavigated Africa. The full fair of the transportation was higher and higher because of the longer ways and this had also huge effect on the prices of the imported products. The closing of the Suez-canal was really tragic for those countries which sufficed most of their petroleum necessity from the Middle-East. After the end of the 1960s the designing of those oil-tankers which had huge holding capacities was more and more prevalent. The only feasible solution for the increasing transportation costs was to make these supertankers able to carry larger amounts at the same time. However, not everybody suffered in those times, this situation was favourable for the ship-builder industry. In countries like England, Japan, Scandinavia, and West Germany the ship-builder industries were all about to extend their building capacity. At the turn of the decade, it could definitely be stated that there were a lots of orders and customers in these industries, and later during the 1970s the demand out of regard for petroleum had even more an increasing tendency, so the number of purchases had also shown a growing trend. The extended petroleum accounts were huge burdens for the leading capitalist countries, therefore they were forced to enter some saving measures, super-taxes and they had to look for some previous interior sources and tried to reopen the previously closed coal mines and find new options to develop the exploitation of atomic power.[30]

3.3. The OPEC – a turning point for the oil industry?

Before moving on to the introduction of the *OPEC* it is important to make clear the events before the formation of this organization. It is not clear if this power was unbroken because these majors had serious problems according to the relations with the oil-exporting states or there was something else in the background. For sure there were several important factors, like the growing spread of nationalism, the decline of the old European imperial powers, or the

[29] Encyclopaedia Britannica. "*Six-Day War, Middle East 1967*". Available online at <http://www.britannica.com/event/Six-Day-War> (31 Oct. 2015; 13: 41)
[30] Gonda, György; Lőrincze, Péter. 1975/20. "World economy: With a half steam. The oilfleets – Is there any heal-all?". *Hungary*, No. 12.

events of the Cold War, besides disturbances in the area of Middle East countries and the Arab-Israeli conflict, that contributed to these difficulties.[31]

It can be said that the so-called *"oil nationalism"* reached its top in the late 1950s. The Venezuelan Government wanted to enlarge the "economic life of their oil fields"; however, as a result of the growing contest from Soviet oil the market price of the oil started to decline. The leading oil producers wanted to keep their share from the oil market with the instrument of price reduction. These oil producer countries were namely, Venezuela, Saudi Arabia, Iraq, Kuwait, and Iran. After the Exxon reduced the "*posted price"*[32] on Arabian Light Crude in 1960 these five governments consulted in Baghdad about the formation of OPEC, namely the *Organization of Petroleum Exporting Countries*.[33] It has been argued that this meeting in Baghdad from 10th to 14th September 1960 was a decisive move in the history of the oil industry. The participants agreed that the previously described posted prices should be restored to their earlier levels from August and the oil companies should negotiate with the producing countries before making any further changes in the case of the prices. They agreed on a *"prorationing system"*[34], the rules of solidarity towards the others and they also made a decision about the formation of the OPEC with the main aim of a policy coordination.[35] Rergarding the study conducted by *Shawn Grimsley*, it is definitely clear that a group of important oil producing countries created this body for coordination of acitivity - like an oil embargo, – that is the main function of this organization. Today, it is characterized in general as follows: "[t]he OPEC is properly a 13-member state intergovernmental organization of oil producing states that is currently headquartered in Vienna, Austria."[36]

It is also important to highlight that OPEC started to expand, namely by 1973, seven more countries joined the organization. They were by this time already responsible for two-thirds of the world's oil production.[37] In addition, it should be also enhanced that the embargo in 1973

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[31] Bamberg, James. *British Petroleum and Global Oil, 1950-1975 - The Challenge of Nationalism*. 2000. Cambridge University Press, p. 143.
[32] A posted price is an artificial price set by the companies and rarely tested in the marketplace. (Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 36.)
[33] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 37.
[34]A prorationing system was used for the regulation of production. (Bamberg, James. *British Petroleum and Global Oil, 1950-1975 - The Challenge of Nationalism.* 2000. Cambridge University Press, p. 150.)
[35] Bamberg, James. *British Petroleum and Global Oil, 1950-1975 - The Challenge of Nationalism*. 2000. Cambridge University Press, p. 150-151.
[36] Grimsley, Shawn. Study.com. "*Organisation of Petroleum Exporting Countries (OPEC): History & Purpose".* Available online at <http://study.com/academy/lesson/organization-of-petroleum-exporting-countries-opec-history-purpose.html> (02 Nov. 2015; 18: 43)
[37] Gibson, Megan. 2010. "A Brief History of OPEC". *TIME*, Sept 14.

was not an *"OPEC Embargo"*. The *OAPEC* was the main initiator of the oil embargo and the move of production cuts. In 1973, this organization involved the following member states: Saudi Arabia, Kuwait, Libya, Iraq, Bahrain, Qatar, Algeria, the United Arab Emirates, Egypt and Syria. Iraq had a special situation because it joined to the embargo but did not support the production cuts. Here could be the question emerged: *Did non-members participate?* Answering for the question, *David S. Painter* says in his article the following:

> "[t]he Non-Arab OPEC members, including *Iran, Venezuela, Nigeria, and Indonesia* did not join the embargo or cut back production and exports.They were content to profit from the price increases and even boosted production. Indeed, the shah was a leading proponent of higher prices. Labeling the embargo an OPEC embargo obscures the specific political circumstances that led to it and conflates the embargo with the pressure OPEC had been putting on prices since 1971."[38]

3.4. OPEC and the oil crisis

Catherine R. Schenk is dealing with international economic relations since 1945. According to her the impact of the oil crisis can be felt in three different ways. The first one was the increasing expenditure on "electricity", "heating", or other "oil-intensive industries", and less was spent on "consumption of other goods". The decreasing demand was the most important result of the less expenditure. The second one was in connection with inflation because the economic environment became more and more inflationary, which led to falling production rates, growing unemployment rates, and slowing economic growth. Finally, the third one was the fact that the impact of the oil crisis can be felt also in *international economic relations.* Regarding the disbursement of OPEC surplus in 1974; it can be said that the total financial surplus was 55$ billion, from this amount 22.8$ billion were eurocurrency deposits, 11.1$ billion (20%) was invested in the United States, and 7.2$ billion (13%) was invested in the UK. These data contained also capital and property. Very little amount (2.5$ billion) was spent as a loan for developing countries. The remaining expenditure was for other investments (3$ billion), other loans (4.5$ billion), and international organisations (4$ billion).[39]

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[38] Painter, David S., 2014. "Oil and Geopolitics: The Oil Crises of the 1970s and the Cold War*". Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 190-191.
[39] Schenk, Catherine R. 2011. *International Economic Relations since 1945 – The making of the contemporary world.* Routledge, p. 55-61.

4) 1973: the time of the first oil crisis

This section could be read as an introductory part mainly because it will detail the most important events before the actual time of the first oil crisis and the impacts of the oil embargo worldwide in general.

4.1. The decade of oil crises (1973 and 1979)

Between 1970 and 1973 there was a progressive rise in the price of oil; however, this growing tendency was followed by shock price increases in 1973 and 1974. From the 1980s the oil market changed a lot; the main aim of the OPEC members were to hold the market "steady", but their measures proved inefficient and the oil prices falled back in the beginning of 1986. Taking a deeper look in the events of oil crisis from period to period, it can be seen that there are different structural changes during the years, which defined the character of the oil market.[40]

According to *George Philip*, the 1970s could be described as *a decade of oil crises* because there were two oil shocks in that time in *1973* and *1979*, which had a dramatic influence on oil prices. The first oil shock was a long sequence of events between October and December in 1973. Moreover, on 20th October a total embargo was announced by Saudi Arabia, according to the oil exports to the USA and the Netherlands. As a result, by 1973 the oil price was already doubled and just rised further and further during the first part of 1974.[41]

4.2. The Yom Kippur War

On 6th October in 1973 started *the Yom Kippur War* between Egypt and Israel because the arab coalition wanted to strike back for the sake of defeat in 1967. As for *Tamás Tarján* the main goal was the recovery of missing regions and the release of Palestinians. Clearly, this day was especially important for Jewish people in their religion because it was the "day of atonement". The war kept nineteen days long and ended with the winning of the Jewish state despite of the overpower.[42]

According to *Kati Molnárfi*, the two superpowers the USA and the Soviet Union did not send any armed forces during the attack; however in terms of war materials the situation was completely different. The USA has always supported Israel from the beginning of the Arab-

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[40] Philip, George. 1994. *The Political Economy of International Oil*. Edinburgh University Press, p. 151.
[41] Philip, George. 1994. *The Political Economy of International Oil*. Edinburgh University Press, p. 158.
[42] Tarján, Tamás. Rubiconline. "*6 October 1973, The beginning of the Yom Kippur War*". Available online at <http://www.rubicon.hu/magyar/oldalak/1973_oktober_6_a_jom_kippuri_haboru_kezdete#top> (04 Nov. 2015; 12: 34)

Israel conflicts. As a part of the Yom Kippur War the Arab countires decided in favour of the oil embargo from 17th October in 1973 and this date was the starting point of the first oil crisis which lasted until over June, 1974. The oil embargo meant that the oil export was closed down in the pro-Jewish countries, like the USA, therefore the oil prices increased immidiately four times higher than before; in addition the first oil crisis broke out and swept over in the world economy.[43]

4.3. The economic facts of the oil embargo

The oil crisis of 1973 was the boycott of the Arab oil producers which had,as it was already mentioned before, serious world market effects on the world economy. Regarding the economic results of the first oil crisis it could be stated that the most important fact was the shortage of oil and gas, therefore the oil prices also started to rise and this turnover traced back to the bigger shortage prices again and again and in parallel the permanently increasing oil prices. Which countries were affected the most by the loss of the continuous shortage? The oil embargo constantly constricted Europe; moreover beyond the ocean also the USA, which took part in the arab oil import activities only with its own 6%. What is more, the boycott also impressed Japan on the side of the Pacific Ocean despite the fact that it connected only in a small compass to the crisis of the Middle East. Last but not least, it also had a huge influence on India too, that has always supported the Arab demands.[44]

4.4. Impact of the 1973 oil crisis

4.4.1. Different economies, different economic strategies

I agree with *Fiona Venn* when she writes that "[h]owever, even if there was already an economic downturn taking place before 1973, the recession which gripped many of the world's economies in 1974-75 was the most severe since the end of the Second World War."[45] It is certainly a good approach to examine the impacts of the 1973 oil crisis in order to get a real picture about the economic changes in that time and get an answer to the question of "*how the oil embargo affected the world economy*". What is sure, that the impact of the oil crisis was a mixed one because this kind of recession affected each individual economy differently. The quantity of the influence depended on the given economic conditions, the loaded position in the

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[43] Molnárfi, Kati. Index. "*Israel was attecked on holidays*". Available online at <http://index.hu/tudomany/2013/10/06/40_eve_tort_ki_a_jom_kippuri_haboru/> (04 Nov. 2015; 13: 25)
[44] *Hungary.* 1973/47. "Oil crisis: Taptwisting. The economic facts of the oil embargo. Political question marks.", Vol. 4.
[45] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 154.

world economy and the hired policies which was used by the governments to deal with problems. It would be an impossible mission to review all economies of the world, but one thing that can be concluded after a thorough investigation that each of individual economies followed different economic strategies.[46]

The first oil crisis also had an impact inside and outside Europe. In the following paragraphs two non-European countries will be presented: Japan and the United States, and then the focus will narrow on the territory of Great Britain. First of all, it is important to note that the situation in West Germany and Japan was quite similar because *Japan* also focused more on export growth and its national currency (yen) was once again under-valued, and the entry was controlled in the country to the territory of domestic economy. By 1974 Japan went through a huge development period because the state became the "third largerst economy" in the world. It was a big step forward for Japan because after the oil crisis of 1973 there was an economic downturn in Japan's history; however, by the mid-1970s – quite similar like West Germany – its economy was ready for a quick recovery which was a successful one.[47] Oil price increased in dollar terms, but better exchange rate mitigated the problem for Germany and Japan. In contrast, the pound lost value against the dollar making the crisis for Britain harder.

In addition, the United States should definitely not be forgotten because of its global importance. According to Fiona Venn's collected data the rate of indebtedness and the banks' liabilities continued to grow, in 1972 this price was around 144 billion dollars; however, by the end of the 1977 it increased to 363 billion dollars. There is clearly no doubt that during the 1970s the tendency of oil imports into the United States started to rise mainly from the territory of Venezuela because this country was a truly important oil source for the United States. Moreover, the Bretton Woods system was undermined by the collapse of the dollar. After this breakdown the big question remained at that time, as Fiona Venn says "[h]ow decisions were to be taken regarding the future economic direction of the world economy?"[48]

4.4.2. The New International Economic Order

There were several attempts after the oil crisis of 1973 in order to develop the management of the world economy. Accoding to *James Foreman-Peck*, in 1974, the General Assembly of the United Nations assumed a Charter of Economic Rights and Duties of States, including the

[46] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 157.
[47] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 159-160.
[48] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 160-161.

main proposals for a *New International Economic Order* (NIEC).[49] Unfortunately, these attempts were never really successful. By 1977 inflation and over-expansion came to the front, not energy prices.[50]

4.4.3. The end of the "boom" of 1972-1973

As Fiona Venn describes, the Biritsh economy was struggling in 1973; not only with the problem of inflation and currency instability, but with standing economic problems and high level of unemployment. In 1973 the members of the *National Union of Mineworkers* (NUM) demanded a salary increase for the miners within the framework of a coal crisis; therefore in that time it is possible to talk about a dual energy crisis which brought a further inflation growth, decreasing tendency in output and continual increasing unemployment rates. The British economic problems continued in the mid-1970s, to that time there were already visible signs for an urgent need of an economic recovery. In 1977 the role of sterling has abolished for good and all. It might be said that West Germany kept its traditional role in a field of foreign economic policy. By 1973 it was one of the world's leading trading nations and despite the under-valuation of the Deutsche Mark it could keep its conductibility in export activities and was able for a quick recovery. In response to the economic crisis the state participation in France was an important factor as well, not only in the domestic economy, but also in the fields of multinational industries.[51]

As *Derek H. Aldcroft* says in his book with the title of *The European Economy 1914-1980*, the 1970s was an extremely turbulent period compared to the 1950s and 1960s. After 1972-73 a period of serious recession had started, as it was already detailed in the previous paragraphs, and this recession was in itself a shock because this meant *the end of the "boom" of 1972-73.*[52] There was no doubt about the fact that the longest recovery period of the capitalist world economy was finally over. The boom lasted between 1947 and 1973 and created the illusion of a crisis-free capitalist consumer society throughout these years. Therefore, this upward tendency had really definite political outcomes. What were the most important reasons for the period of "boom"? During the Cold War the demand for different goods tremendously increased what resulted in the formulation of a *capitalist consumer society.* The rate of state expenses remained very high and never slided back to the earlier level during the Second World War.

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[49] Foreman-Peck, James. 1983. *A history of the world economy – International Economic Relations since 1850.* Wheatsheaf Books Ltd, p. 370.
[50] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 161-162.
[51] Venn, Fiona. 2002. *The Oil Crisis*. Pearson Education Limited, p. 158-159.
[52] Aldcroft, Derek H. 1978. *The European Economy 1914-1980*. Croom Helm London, p. 232.

Besides these facts, the technological improvements and the new labour defence policy had a stimulating effect on the supply and demand. By 1974 the 6% economic increase in the USA was replaced by 1% economic reduction. In the UK the situation was the same, the 5% production increase was replaced by a 3,5% decline. The rates in the FRG and France were quite similar, from 4% and 5% to 1% setback. The most noticable effect appeared in Japan with 9% production decrease per year, from 10% to 1%. Endre Gömöri claims in his study that the most important problem was not the production decrease or the connecting unemployment rise, but the *increasing rate of inflation.* The truth is that the economists, even today, are not able to solve this unexplainable mystery, so the oil crisis reference was rather a false explanation. It might be said that the inflationary period had already started during the 1960s and at the time of the last economic fallback in 1970-1971 the economic increase stopped for almost one year. This time the inflationary waves showed an increasingly growing tendency. Although, the interesting part is that there was no prognostication of any oil crisis in the 1970s.[53]

4.5. Reactions and policy responses to the energy crisis of the 1970s focusing on a few selected countries

In order to understand and prove the certainty of the proposed assumptions of the thesis it should be considered that there were *different reactions from different countries* to the events of the oil crisis in 1973. There were countries whose response was quite straight because of their economic policy; however, in other countries the reaction was really slow, therefore, the economic impact of the recession was also not so drastic, like in Great Britain.

According to *Robert D. Lifset*, the energy crisis of the 1970s in the United States was *an oil crisis*, a *natural gas crisis* by physical shortages and a *crisis in the electrical utility sector* at the same time with or without an OAPEC oil embargo. Between 1949 and 1980 the importance of the US market increasingly grown because "the price of domestically sold oil in the US grew above world prices". It is clear that during this period cheap foreign oil imports increased at the expense of domestic oil industry. After the Second World War these values were even more sharpened because foreign oil imports doubled, while domestic oil production even more decreased. It is also important to note the *"Mandatory Oil Import Program"* which main task was to ensure the minimum and maximum values of the oil prices in the US; however, this program was ended in April 1973 by Richard Nixon. During the period of 1950 and 1970 oil production doubled, but oil consumption nearly tripled. It could be said that the *OAPEC*

[53] Gömöri, Endre. 1975/3. "World economy: The end of the „boom". The anatomy of the capitalist crisis. Special features." *Hungary*, No. 5.

embargo had a great impact, especially in February 1974 when the oil imports started to fall back and it resulted in shortages in the field of domestic oil market.[54] Richard Nixon, the actual american president, stated that in the offices of the White House the temperature was only eighteen degrees. After this exemplary announcement the next foreseeing act was the creation of the petroleum and fuel oil tickets preparing for the worst scenario, so that the crisis worsen, which did happen. The interesting part of the situation is that despite of the fact, that the United States was the primary target of the Arab oil boycott, in a paradoxical way, it suffered less than the Western European countries.[55] Here could be the main point outlined, namely that the United States always had its own oil fields, as it was already mentioned before in the territory of Venezuela, while the Western European countries were dependent on the Arab nation and its oil resources. However, there is a big difference also between each of the Western Europoean countries, regarding their economic policy.

Mogens Rüdiger in his article with the title of *The 1973 oil crisis and the Designing of a Danish Energy Policy* is dealing with the event of the first oil crisis as a challenge for the Danish economy and the fact of energy supply security. In modern Western society all types of production and energy supply were based on oil and oil products. After the first warning signs such as the Suez Crisis in 1956 and the Six Day War in 1967 the significance of *energy supply security* increasingly strengthened in time. Based on the article, the Danish state was in the position that all energy need to be imported because there were only just a few resources available on the spot (wood, lignite). By 1973, 90 percent of energy consumption was based on imported oil. After the first oil crisis the rules have changed and the economic results were not too promising (slower growth, high inflation rates, high interest rates and high unemployment rates). As the results have proven the Danish state's dependency on oil was inevitable, therefore the possibility of energy supply security was the most livable solution.[56] There were several debates between the state and the utilities about *nuclear power*, until this plan was excluded from energy planning in 1985. The so called *"New Design"* included the energy supply centralization and the appearance of market-driven model. In general it could be said, that the

[54] Lifset, Robert D. 2014. "A New Understanding of the American Energy Crisis of the 1970s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 22-38.
[55] *Hungary.* 1973/47. "Oil crisis: Taptwisting. The economic facts of the oil embargo. Political question marks.", No. 4.
[56] Rüdiger, Mogens, 2014. "The 1973 Oil Crisis and the Designing of a Danish Energy Policy". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 97-101.

Danish energy sector has changed a lot during this period and seen the new opportunities, such as the reneawable energy sources, also within this, the importance of *wind power.*[57]

Frank Bösch in his article with the title of *Energy diplomacy: West Germany, the Soviet Union and the Oil Crisis of the 1970s* dealing with the collaboration between Eastern and Western Europe before, during and after the oil crises of the 1970s and together with this the question of *"oil diplomacy"*. The main focus is on two countries: West Germany and the Soviet Union. As the writer says: "the 1973 oil crisis was not actually a watershed event for Eastern Europe and energy relations between the East and West".[58] As regards the question of oil diplomacy it could be said that there were numerous *cooperative projects* between the East and the West before the first oil crisis. Oil diplomacy was the key factor to institute different cooperation forms and *energy programs*. The power of Russia - the world's biggest producer of oil and natural gas - was dependent on the larger expansion of these resources. Ukraine suffered under the dependency on Russian energy. The Soviet Union did not use its power in the trade activities with Western nations because it would have been endanger its most important export market.[59]

From the side of East Germany it could be said that an *economic structural change ("Strukturwandel")* was the most efficient solution for the impacts of the oil price crises. According to André Steiner's article this move was inevitable for the country's economic life because even in a centrally controlled planned economy it was really hard to build in a new transition process, sithence the central government also had its own limitation.[60]

Christian Marx in his article with the title of *Failed Solutions to the Energy Crises: Nuclear power, Coal Conversion, and the Chemical Industry in West Germany since the 1960s* is analyzing "the reaction of West German chemical corporations to the energy crises of the 1970s and their attempts to anticipate future energy crises". In general, two main attempts could be

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[57] Rüdiger, Mogens, 2014. "The 1973 Oil Crisis and the Designing of a Danish Energy Policy". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 105-107.; 108-109.

[58] Bösch, Frank. 2014. " Energy diplomacy: West Germany, the Soviet Union and the Oil Crisis of the 1970s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 168.

[59] Bösch, Frank. 2014. " Energy diplomacy: West Germany, the Soviet Union and the Oil Crisis of the 1970s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 165-183.

[60] Steiner, André. 2014. "Common Sense is Necessary. East German Reactions to the Oil Crises of the 1970s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 2015-250.

differed, foremost the growing importance of *nuclear power stations*, additionally the exploitation of *coal conversion technology*. By the end of the 1960s, the idea of nuclear power and coal chemistry had become much more preferable solutions instead of constant petroleum usage. All this time, the growing threat of *air and water pollution* had become concerning environmental problems, moreover, criticism of nuclear technology arised as well. As Marx says: "oil was not only an important energy source, but it also served as the basis for many chemical products."[61] Based on the article, the idea of an *"energy mix"* from nuclear energy and chemical production was one reaction to the 1970's energy crises. The interesting thing is that the consequences of the oil price shock were not so drastic than on other industrialized countries because of the *"currency appreciation"*.[62] After the first oil crisis, natural gas consumption stabilized and the import rates have increased continually, therefore it could be said that the *national energy structure changed fundamentally*. All in all, nuclear energy had paramount importance in energy generation of East and West Germany too.[63]

Great Britain's oil policy from 1967-73 could be described with only one word: *uncertain.* This condition derived from several interrelated problems, such as the institution of decision-making body and the question of North Sea oil. According to *Jonathan Kuiken*, oil policy decisions were made by the *"Cabinet"* based on the advice of "ad hoc working parties" and committees made up of "representatives from the Treasury, the Ministry of Power and the FCO". As regards the *North Sea oil*, the topic of oil policy was moved "from the bureaucratic debate into the realm of politics". In addition, besides the internal factors there were also several external factors, such as the *"entrance into the European Community"* and "the difficult relations with the Administration of President Richard Nixon in the United States". In the early 1970s, the wind of oil crisis increased the mistaken belief about the importance of North Sea oil, which main function was not only to ensure *Britain's supply* but to offer a possible *inlux of*

[61] Marx, Christian. 2014. "Failed Solutions to the Energy Crises: Nuclear power, Coal Conversion, and the Chemical Industry in West Germany since the 1960s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 259.
[62] Marx, Christian. 2014. "Failed Solutions to the Energy Crises: Nuclear power, Coal Conversion, and the Chemical Industry in West Germany since the 1960s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 269.
[63] Marx, Christian. 2014. "Failed Solutions to the Energy Crises: Nuclear power, Coal Conversion, and the Chemical Industry in West Germany since the 1960s". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 270.

wealth. In general, it could be said that Britain's oil policy was "caught in transition" in October of 1973, when the first oil crisis started to expand.[64]

As the *Hungary* says the Netherlands was the only one officially declared Western European target of the Arab oil embargo because of its friendship with Israel; moreover, because of its liberal economic policy. The situation resulted in a complete automobile prohibition on Sundays and an increase in petroleum prices. In Belgium, the FRG (Federal Republic of Germany), Luxembourg and Denmark the Sunday restraints were also attended. Speed limitation was more and more extended and the petroleum tickets were already ready to use.[65]

[64] Kuiken, Jonathan. 2014. "Caught in Transition: Britain's Oil Policy in the Face of Impending Crisis, 1967-1973". *Historical Social Research – Historische Sozialforschung, Special Issue: The Energy Crisis of the 1970s.* Vol. 39, No. 4. p. 272-289.

[65] *Hungary.* 1973/47. "Oil crisis: Taptwisting. The economic facts of the oil embargo. Political question marks.", No. 4.

5) 1973 and after

As it was stated by *Niall Ferguson* in his book on *The Shock of the Global –The 1970s in perspective* " [t]he seventies are indeed still popularly remembered as a time of crisis."[66]

It is important to address the issue that the crises of 1970s were not just economic ones, but they involved a political context as well. The unavoidable economic results of the oil crisis were *an inflation*, *a recession*, *a monetary imbalance,* and *a considerable abatement economic growth*. The situation of the labour market had already in November 1973 debased. In 1974 the automobile industry had to cut down the production with 20% as a result of an economic downturn and the increase of petrol prices.[67] They were also political crises because the leaders of the states had to count with the consequences and possibly avoid impeachment. The most important political consequences of the oil crisis were the followings: *speed limit, different kind of efforts about sparing oil consumption, use of other energy sources, and control of the western energy supply* with the foundation of the International Energy Agency. In addition, other consequences were the intensification activities according to the relation between European consumer countries and Arabian oil transport countries and finally the intensified quest of oil fields on different stable territories, like for example in Alaska or at the North Sea.[68] Based on the above written arguments, the 1970s must be seen as *a time of crises*, but a special one because these crises were *"personal" crises* as well.[69]

5.1. International Energy Agency (IEA)

The IEA primarily served the American foreign policy and economic interests; however, it is important to talk about this organisation before drawing any conclusion about the agency's role in the energy policy of the world. The founding document of the IEA contains the most important tasks of the organisation; first the assurance of self-sufficiency in the field of petroleum production, second the formation of common rules towards the cutback of demand. Moreover, the regulations about equal petroleum distribution, the information system about international oil market, and the cooperation program referring to the reduction of oil imports addiction are also included in the organisation's scope of responsibilities. Last but not least, networking with the oil-producing countries and also with the consumer countries outside the

[66] Ferguson, Niall; Maier, Charles S.; Manela Erez; Sargent, Daniel J. 2011. *The shock of the global-The 1970s in perspective*. Belknap Press, p. 1.
[67] Hohensee, Jens. 1996. *Der erste Ölpreisschock 1973/74*. Franz Steiner Verlag Stuttgart p. 193.
[68] Hohensee, Jens. 1996. *Der erste Ölpreisschock 1973/74*. Franz Steiner Verlag Stuttgart, p. 218-228.
[69] Ferguson, Niall; Maier, Charles S.; Manela, Erez; Sargent, Daniel J. 2011. *The shock of the global-The 1970s in perspective*. Belknap Press, p. 1-2.

IEA plays an important role in the IEA's past and present activity. These facts clearly supports the assumption that the main aim of the member states was to create a new plan which could allow the fastest reaction in case of another oil transport control.[70]

It could be said that besides the above already listed protective measures the other dominant territory was the reduction of oil imports addiction as quickly as possible. Of course it was not a kind of problem which could have been solved from one day to the other. After 1975 more and more research was focused on the exploitation of alternative energy sources and exploration of new energy sources.[71]

Henning Türk's article with the title of *The oil crisis of 1973 as a challenge to multilateral energy cooperation among western industrialized countries*, mentions among the main tasks of the IEA not only the crisis and information management of the oil market members, but also the co-ordination of the Western approach with international energy politics under US leadership. Since the end of the 1970s, based on the article of Henning Türk, the IEA prooved to be helpful in developing materials for the *energy discussions of the G6 and G7* summits.[72]

5.2. Energy policy after 1973

As for *Frank Bösch and Rüdiger Graf*, in the second half of the 1970s oil prices stabilzed and even went down. By 1977 and 1978 many politicians were convinced that they could deal with the crisis. As the writers claim in their article:

> "[c]hanges were no longer seen as urgent. Oil consumption increased again, and the construction of nuclear power plants seemed to be an easy way out of the energy crisis."[73]

However, by 1979 this aspect changed entirely. There were several determining factors which together set up the state of insecurity at that time. At first, there were more and more protests against nuclear power after the accident in Harrisburg, at the Three Mile Island. At the same time the second oil crisis in 1979 brought along the continuous rising of energy costs because of the political problems in the Middle East. These facts on the whole meant a constant danger for the future. According to several economic analyses, as Bösch and Graf writes, it can be said

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[70] Gonda, György; Lőrincze, Péter. 1975/32. "World economy: Prognosis of oil battles. Higher prices in October? Since 1973 the prices are five times higher. Paris not join in." *Hungary*, No. 12.
[71] Gonda, György; Lőrincze, Péter. 1975/32. "World economy: Prognosis of oil battles. Higher prices in October? Since 1973 the prices are five times higher. The principle of threshold price." *Hungary,* No. 12.
[72]Henning, Türk. 2014. "The oil crisis of 1973 as a challenge to multilateral energy cooperation among western industrialized countries. Conclusion." *Historical Social Research* 39 (2014) 4. Gesis, p. 228.
[73] Bösch, Frank; Graf, Rüdiger. 2014. *Reacting to Anticipations: Energy Crises and Energy Policy in the 1970s.* Temporal Scope and Periodization. Gesis, p. 13.

that the economic effects of the second oil crisis were worse than of the first one. Against the measures of the International Energy Agency *the second oil crisis could not have been avoided*; therefore, one thing should be highlighted as a lesson from the events of the oil crises, that "[t]he next crisis always differs from the preceding and can be neither fully anticipated nor prevented".[74] The article of Frank Bösch and Rüdiger Graf is also dealing with energy studies and says that in the 1970s energy policies gained a greater and greater importance. With the outbreak of the oil crises there was an urgent need for an integrated perspective of energy on a national and global level. According to the writers' findings, "[n]ewly founded journals, such as Energy Policy (1974), Resources Policy (1974), and the Annual Review of Energy (1976), created a forum for interdisciplinary scholarly discourse on energy."[75] From the government's side there was also a huge progress in the direction of a *unified enegy policy*.[76]

5.3. Energy intensity after 1973

According to the authors of the book called *Power to the People – Energy in Europe over the last five centuries*, energy has always had a central role in everyday life.To quote their words they are saying the followings about the importance of energy:

> "[a]ll things need energy, and all actions are transformation of energy. Every step, small or large, that a human takes, is part of an energy economy, and every object we treasure, use, or discard is similarly the product of that economy."[77]

In order to get a clear picture about the energy efficiency and energy consumption details it is important to examine the rate of energy intensity in the UK and for comparison in other countries as well. However, before the in-depth investigation it is important to clarify the basic concepts regarding energy efficiency and energy intensity. According to *László Molnár*, the *energy efficiency* could be described as the amount of energy which is needed to produce a unit of some kind of product or to implement a unit of service. The term of *energy intensity* could be explained as the amount of energy which is needed to produce a unit of GDP. In a country this term means the amount of energy which is needed to create a unit of one dollar or euro gross domestic product. This phenomenon depends on several factors such as the economic

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[74] Bösch, Frank; Graf, Rüdiger. 2014. *Reacting to Anticipations: Energy Crises and Energy Policy in the 1970s.* Temporal Scope and Periodization. Gesis, p.13-14.

[75] Bösch, Frank; Graf, Rüdiger. 2014. *Reacting to Anticipations: Energy Crises and Energy Policy in the 1970s.* Energy Studies and the Self-Reflexivity of the „Anthropocene". Gesis, p.14.

[76] Bösch, Frank; Graf, Rüdiger. 2014. *Reacting to Anticipations: Energy Crises and Energy Policy in the 1970s.* Energy Studies and the Self-Reflexivity of the „Anthropocene". Gesis, p.14.

[77] Kander, Astrid; Malanima, Paolo; Warde, Paul. 2013. *Power to the People – Energy in Europe over the last five centuries.* Princeton University Press, Princeton, p. 1.

structure of a country, the climate and the energy use patterns of the people.These two concepts tightly connected to each other because if the changes of energy efficiency should be measured the *energy intensity indicator* is the best method to do that *(energy usage/GDP)*. In addition, one more term should be mentioned which is the *energy dependency*. This concept involves no other than the percentage of export earning which is used for foreign energy purchases, so import activites.[78] Regarding the review of the International Energy Agency from 2012 with the title of Energy Policies of IEA Countries – The United Kingdom, *energy intensity* could be defined as "a total primary energy supply per unit of gross domestic product adjusted by purchasing power parities".[79]

In the following lines a much more detailed analysis will be presented regarding the energy economy of the UK. The investigation is based on the energy data of *Enegy History - Joint Center for History and Economics* which are the results of the analysis of Kander, A., Malanima, P., & Warde, P., *Power to the People. Energy in Europe over the last five centuries* (Princeton: Princeton University Press, 2013). Regarding the data of *total energy consumption per country between the period of 1970 and 1975* in the *UK*, in *Germany*, in *France*, in the *Netherlands* and in *Sweden* it could be said that the most prominent values showed in Germany, England and France. In 1970 there was a growing trend in Germany and France, but in Britain there was a little setback. All the three countries had an upward direction till 1973, then after the first oil crisis a downward direction was characteristic but only in a small compass.[80] Having a closer look on the details of the *shares of energy consumption in the UK between the period of 1970 and 1975* it could be said that *coal and oil* were the most dominant factors; however, *food and natural gas* had a much less extent.[81] Moreover, in the field of *energy intensity* from the period of 1970 and 1975 in the previously examined countries the same tendency could be found like earlier with the lead of three outstanding countries: the UK, Germany and Sweden. In 1973, the UK had received a higher value than Germany and Sweden, then in the following years after the first oil crisis all of them produced quite similar

[78] Molnár, László. 2013. "The term of energy efficiency, its development opportunities and obstacles". *DocSlide, PEA Conference.* Budapest, p. 6.
[79] International Energy Agency. 2012. "Energy Policies of IEA countries-The United Kingdom". *International Energy Agency Review*, p. 22.
[80] Kander, A., Malanima, P., & Warde, P. 2002-2011. Energy data based on the analysis of the book called *"Power to the People - Energy in Europe over the last five centuries"*. Available online at <http://www.fas.harvard.edu/~histecon/energyhistory/energydata.html> (03.05.2016; 16: 42)
[81] Kander, A., Malanima, P., & Warde, P. 2002-2011. Energy data based on the analysis of the book called *"Power to the People - Energy in Europe over the last five centuries"*. Available online at <http://www.fas.harvard.edu/~histecon/energyhistory/energydata.html> (03.05.2016; 17: 05)

values wtihout any drastic change.[82] The following graph (see figure 3.) shows the most important part of the investigation process which is the *energy consumption data per capita per country in Western Europe*. Based on the available energy data the following order could be set up between the examined countries: Sweden, the UK, Germany, the Netherlands and France. It could be interesting that after 1973 in the Netherlands and after 1974 in Sweden could be found a growing direction. However, regarding the average consumption it is clear that from 1970 to 1971 a declining, then from 1971 to 1973 an increasing and after 1973 again a decreasing period was characteristic for the energy economy of these contries.[83]

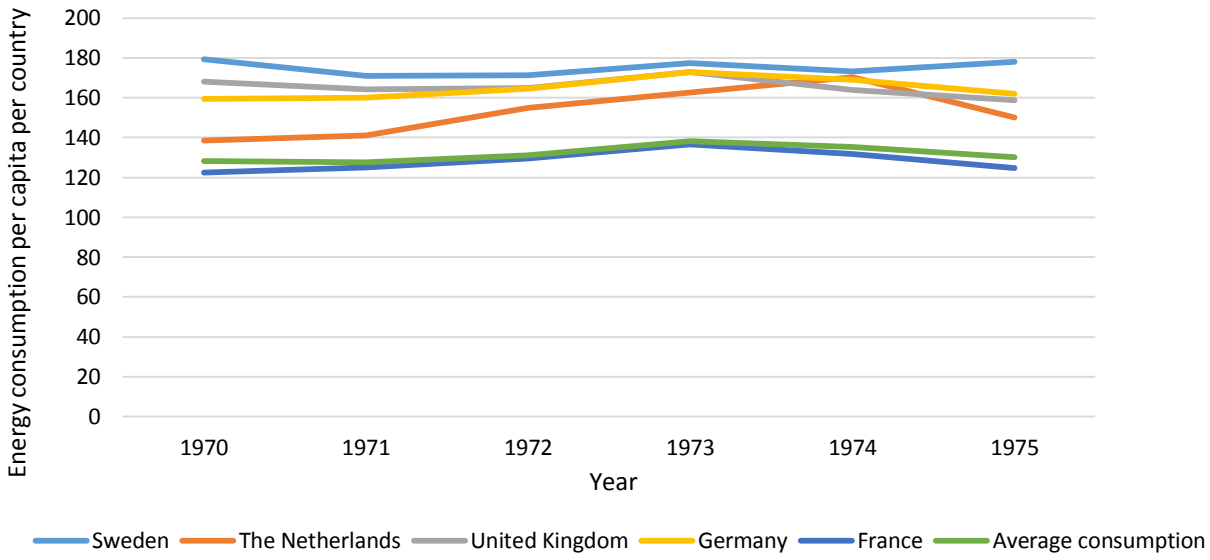

Figure 3. Per capita energy consumption per country and average consumption (Western Europe).

Graph from Kander, A.; Malanima, P.; & Warde, P., Power to the People - Energy in Europe over the last five centuries (Princeton University Press, 2013)

<*http://www.fas.harvard.edu/~histecon/energyhistory/energydata.html*>

[82] Kander, A., Malanima, P., & Warde, P. 2002-2011. Energy data based on the analysis of the book called *"Power to the People - Energy in Europe over the last five centuries"*. Available online at <http://www.fas.harvard.edu/~histecon/energyhistory/energydata.html> (03.05.2016; 18: 35)

[83] Kander, A., Malanima, P., & Warde, P. 2002-2011. Energy data based on the analysis of the book called *"Power to the People - Energy in Europe over the last five centuries"*. Available online at <http://www.fas.harvard.edu/~histecon/energyhistory/energydata.html> (03.05.2016; 20: 40)

It is important to mention that the United Kingdom has always had *lower energy intensity* results, which is mostly due to the fact that in the UK's economic structure the sector of *industry has always got a much smaller share* than in most IEA countries.[84] This trend can be seen as well when the rates of energy intensity are examined by sectors in the United Kingdom from 1973 to 2010. The data indicates the previously mentioned fact regarding the *sector of industry* that the energy intensity in this field had fallen by 71% between 1973 and 2010 and this is a much more visible value than in the other sectors. In the *service sector* a 62% decline and in the *domestic sector* a 37% decline can be seen; however, these rates have always changed continuously after a period of time, like it happened in 1995 when the rate of decline in the industrial territory started to slow and the energy intensity value in the service sector has continued to decrease. In the case of *transport sector* no dynamic change can be noticed between the period of 1970 and 2010. It should be mentioned that this so called long-term stability and increasing tendency (5%) can be explained by more and more *developing energy efficiency or fuel switching.*[85]

5.4. Future prospects

5.4.1. Energy in a rational world

Michael Tanzer in his book with the title of *The Energy Crisis: World Struggle for Power and Wealth* provides the reader an overview of a world with *rational useage of energy*. The substantive element of this "imagination" is the increasing equality among all the people. In his study there are three main principles supporting his conception. One of the main principles in favour of rationalism is the appropriate use of energy resources in order to grant an equal distribution of income. A further principle is the development of relative equality between future and present generations. Furthermore, Tanzer claims in his third principle that the energy resources should be used for production of necessities and comforts, but not for wasteful luxury.[86]

[84] International Energy Agency. 2012. "Energy Policies of IEA countries-The United Kingdom". *International Energy Agency Review*, p. 22-23.
[85] Wilkes, Emily; Goodright, Victoria; Waters, Liz. 2015. *Energy Consumption in the UK (2015) – Chapter 1: Overall energy consumption in the UK since 1970.* Department of Energy & Climate Change, p. 12.
[86] Tanzer, Michael. 1975. *The Energy Crisis: World Struggle for Power and Wealth*. Monthly Review Press U.S., p. 140-152.

5.4.2. What will the future be like? - The next 300 years

The picture of the world's energy consumption in the next 250-300 years obviously contains a lot of insecurity. However, the rapid development of technological and scientific changes means a great step forward, just like in the field of utilisation of energy sources or the usage of long-range energy sources. Therefore, the most important aim is to become familiar with future energy consumption tendencies. It is quite sure that the overuse of *fossil energy sources* (coal, petroleum, natural gas) is not in danger even in the next 50-100 years because nuclear energy sources are coming to the front. However, it is quite interesting that the petroleum and natural gas rapidly loose its importance as part of fossil energy sources. There are other new "characters" on the field of energy market, just at the *bitumen, sand, and shale oil.* The main argument here is that the usage of coal will only reach its peak 100-150 years later because of the faster and faster developing technology. The forthcoming hundred years through the turn of the millenium will be the period of a sudden energy production development. However, it is true that the different kind of natural energy (hydropower, solar energy, wind-power and geothermal energy) will increase in absolute terms, but proportinally it will be only of secondary importance regarding energy production. As it is a well-known fact today, electricity is becoming more and more popular, mostly because this form of energy ensures the most diversified possibilites of energy usage. With time the *problem of environmental pollution* (air pollution, water pollution, the destruction of environment, the destruction of animals and plants, noise pollution) will also have to be solved because damage caused by energy production and energy usage is unbearable. Concluding it all, it is important to note that the on-going development of energy usage is inseparable from the measures taken in favour of environmental protection.[87]

5.4.3. What will the future be like? - Enough energy for everyone

Günter Keiser details in his book the symptom of energy crisis and the strategy of energy insurance. According to him it is really important to note that it would be incorrect to say that the "[e]negy will be barely enough in the future".[88] What is incorrect about this statement is that not energy in general will be barely enough according to the future prospects, but only oil and natural gas. The truth is there are many possible ways to gain natural energy; however, in order to develop these natural energy sources it is important to bear in mind that a systematic

[87] Patkó, András; Várnai, Iván. 1975. *Energy crisis*. Kossuth Publisher, p. 30-34.
[88] Keiser, Günter. 1979. *Die Energiekrise und die Strategien der Energiesicherung*. Verlag Franz Vahlen GmbH, p. 226.

development of the necessary technological equipments or methods and an enterpreneurial initiative is a must. Therefore, the answer for the big question, whether the available and of course the still not detected energy supplies will be surely enough in the future, and if yes exactly how long, depending on the manufacturers as well. Moreover, it could be said that this mistery will be *the biggest challenge* of the human population.[89]

[89] Keiser, Günter. 1979. *Die Energiekrise und die Strategien der Energiesicherung.* Verlag Franz Vahlen GmbH, p. 226.

6) The time of the first oil crisis and the pre-crisis period until 1973 in Great Britain

6.1. The British economy: 1960-1970

For a better understanding of the economic changes in Great Britain during the first oil crisis and after the first oil crsis it is important to examine *the period before 1973*. *R. W. Breach* and *R. M. Hartwell* wrote a fascinating book about the British economy and society and they divided their book into three main parts from 1870-1970. In this thesis only the third part will be concerned, namely the period *from 1945 until 1970.*

As the writers' findings demonstrate, after 1945 the economic conditions were largely determined by the Second World War. How did the economic situation look like throughout this time? First of all, talking about the "reduction of the domestic capital" through "lack of repairs", as well as through "physical damage from bombing and shipping losses", is vital. The export values had fallen back to less than one-third of their pre-war level. These lowering data led to the implement of the so called "*war-time restrictions".* The main goals of these measures were to boost export activity, to roll back import as far as possible, and to get rid off the remaining repayments as soon as possible. The applied arrangements proved to be effective, based on the writers' argument, in the interest of developing the economic conditions of the period after 1945. This time was about growing the levels of production, of suddenly rising living standards, improving employment tendencies, and quickly expanding export activities. However, this flourishing period went hand in hand not only with good news, but there were still *economic problems* in the field of *imports and exports.* Breach and Hartwell explained the situation, so that the symptom of faster import growth than export growth led to the situation of insolvency, namely Great Britain was not able to finance its overseas expenditure (including also goods and services) and capital exports. This difficulty was not just present in this period, but every post-war governments encountered with the problem of balancing payments deficits. Thus, the goverment tried to use a new method in order to handle the situation, namely the deflationary policy. What did this policy mean exactly? With space capacity establisment the financial problems of exports was treated. Besides *deficit troubles*, *domestic demand* has also been *declined*, by constraints, and by high interest rates. In 1949 and 1967 there were *sterling devaluations*, in order to reach favourable import rates and cheaper export rates. The reducing process was in both years successful and resulted in a beneficial outcome for export.[90]

[90] Breach, R. W.; Hartwell, R. M. 1972. *British Economy and Society 1870-1970 – Documents- Descriptions-Statistics*. Oxford University Press, p. 231-232.

Regarding *trade activities*, Britain by the middle of 1960s was still the world's third largest trading nation. For this reason the international trade became the starting point of British improvement; moreover, *commodity trade* became even more important than *trade in service*. In regard to import and export in the field of food and raw materials, Britain's main source came from import activities, but export in goods and services also reached a high level. In the sixties this rate was about 20% of British national income. On a global scale, the most notable changes were the *increasing trade relations* between Britain and Western Europe. Furthermore, on one part, Britain was the largest food importer, besides the largest importer of metal, textil raw materials, and petroleum. On the other part, the country was also the leader exporter of vehicles, machinery, metal manufactures, textils, chemicals, and electrical products worldwide. What we know so far, that new industries came into existence, living standards raised, and productivity levels increased. Summing up the observable effects, it could be said that *the numbers of British economy were quite brilliant.* After all, besides these high values it is important to say that the growth of national income was not so quick in relation to many foreign countries, especially in Europe. This data nevertheless not at all shaded the remarkable rate of rise of exports after 1945.[91]

Brian Murphy also dealed with the history of the British economy and according to his view the examined period was characterised by two important features: its data in connection with the *growing tendency of the economy* and the *role of the state in the economy*. He also adds that the economy of Great Britain turned into the phase of *"sustained growth"* insomuch as there was no similar extent since the "railway boom" in the year of 1873. By 1970 the annual unemployment rate was steadily under the level of 2.5%, but mostly it was below 2%. After the settling of the war years and the postwar period, it could be said in general that the production data increased at a rate of 3% and kept this value long enough.

The period of 1950s and 1960s brought more than one change. One of the important innovations was the *"budgetary policy"* aiming immediate economic control and another new factor was the formation of a long-term strategy. Between 1955 and 1960 "industrial production" in Western Europe rose by 40%, in Great Britain this data was 13%. There were two intentions of the country at that time, namely: "achieving a much higher growth rate in the future than it was currently planned" and developing the export activities because export results show a tendency of "falling competitiveness". From the year of 1960 a *"new economic strategy"*

[91] Breach, R. W.; Hartwell, R. M. 1972. *British Economy and Society 1870-1970 – Documents- Descriptions-Statistics*. Oxford University Press, p. 233-234.

was formulated.[92] Regarding *Árpád Harmat* the recovery period after the Second World War lasted until the 1960s and by that time the British reached the highest level of their economic performance. In the 1960s the city of London was rebuilt on the world's cultural stage.[93]

However, Brian Murphy was not the only one who examined the economy of Great Britain at that time. According to *Sidney Pollard*, in the United Kingdom the saving measures, the expanses in scientific research and development, and the rate of technological improvement presented a flourishing trend in comparison with any previous period of history. Therefore it is quite clear that this trend associated with a faster economic growth than in any earlier ages of the country. This fact is supported by the numbers; in 1948-1960 the industrial output progressed by 3.7% per year. The level of national income still rose also by 2.2% a year. Productivity increased more rapidly than ever in manufacturing during the years of 1960 and 1970. The data of Gross Domestic Product (GDP) per head also showed a continuous advance throughout the whole period until 1979. There was a huge level of innovation in industrial structure from the 1920s with the aim of abolition the old habits and the creation of new industries, using new materials and methods. Based on the data of the writer's findings, the output figures increased from 88 to 178, from 1950 to 1980. This growth was sensible all over the main fields of agriculture; however, land use changed only in a small scale throughout the period. The key of the developing agriculture was the better facility, like better equipment and techniques.[94]

Stephen Broadberry in his book called *Market Services and the Productivity Race , 1850-2000* examines the British economic performance during the 1960s and 1970s with an international perspective. He gives a detailed overview about the *sectoral shares of employment rates between the period of 1870 and 1990*, not just in the territory of the *United Kingdom* but in the *United States* and *Germany* too. However, in connection to the topic only two years could be said of relevant which are the year of 1950 and 1973. It is clear that in the case of the United States and the United Kingdom the sector of agriculture and industry show a downward trend, whereas in Germany the data of the industry sector are increasing numbers, similarly as the category of services which has a clear upward tendency in all three countries. It could be said

[92] Murphy, Brian. 1973. *A History of the British Economy 1086-1970*. Longman Group Ltd., p. 788-790.
[93] Harmat, Árpád. History Club, History Website. "*The short history of England*". Available online at <http://tortenelemklub.com/adattar/364-anglia-rovid-toertenete?catid=52%3Aegyes-orszagok-toertenete> (02 Dec. 2015; 13: 05)
[94] Pollard, Sidney. 1983. *The Development of the British Economy Third Edition 1914-1980*. Edward Arnold Pty Ltd., p. 274-275.

that services played a dominant role in "the long-run and shorter-run fluctuations of labour productivity", industry had a secondary role here, and agriculture unfortunately did not have overmuch encouraging results at that time.[95] Stephen Broadberry examines the *real output rates in the UK* grouped by different categories between the period of *1960 and 1979*. From the observed twelve areas in eight sectors – namely in the sector of utilities, total industry, transport and communication, distribution, finance and other services, government, total services and the whole economy – a constantly growing trend can be noted from the 1960s until after the first oil crisis. As regards the sector of agriculture, after the first oil crisis the output rates started to decline, as it was verified before. A similar scheme were typical for the sector of manufacture and the sector of construction, until in the sector of mineral extraction a completely different process took place, since the data of real output from the 1960s until 1973 declined; however, after the first oil crisis by 1979 this data turned into an entirely new direction and almost tripled.[96] It could be said that the *growth rates of real output* in the following sectors are the highest: the sector of construction with its 4%, finance and services with its 3.1% and the sector of transport and communication with its 2.7%. From the twelve observed sectors the government has the lowest output rate. On the one hand, as regards the *growth rates of employment*, the most noticeable decline can be examined in the territory of mineral extraction from -1% to -4%. On the other hand, the greatest progress took place in the sector of finance and services from 0.2% to 2.3%.[97] Regarding the data of *import and export activities of the UK* between the period of *1951 and 1990* both categories show a constantly increasing process; however, on the one hand, in the case of import activities the average annual growth rates declined from 1951 until 1979, and then started to grow after the second oil crisis until the year of 1990. On the other hand, the export activities (including the re-exports) declined from 1951 until 1973, and then began to rise after the first oil crisis until the year of 1979. In addition, after the second oil crisis the observed data more and more decreased.[98]

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[95] Broadberry, Stephen. 2006. *Market Services and the Productivity Race, 1850-2000 – British Performance in International Perspective.* Cambridge University Press, p. 25.
[96] Broadberry, Stephen. 2006. *Market Services and the Productivity Race, 1850-2000 – British Performance in International Perspective.* Cambridge University Press, p. 59.
[97] Broadberry, Stephen. 2006. *Market Services and the Productivity Race, 1850-2000 – British Performance in International Perspective.* Cambridge University Press, p. 64.
[98] Broadberry, Stephen. 2006. *Market Services and the Productivity Race, 1850-2000 – British Performance in International Perspective.* Cambridge University Press, p. 328.

According to the writer findings, the three main import products were the machinery, the petroleum and the chemicals in the UK in 1973. Their shares of total imports were the followings: 15.4%, 10.7% and 5.5%. Last but not least, the three main export products also can not be ignored which were the machinery, the motor road vehicles and aircraft and the chemicals. Their shares of total exports were the followings: 21.4%, 11.1% and 10.4%.[99]

What about the *oil industry*? Until 1973, the oil evolved with all speed in the energy sector, but there were two important events which affected significantly the oil industry. The first one was the sudden price increase pushed by the OPEC, following the oil embargo in 1973. It is important to recall once more how the oil price changed from the 1950s till the 1980s. At the beginning, from the *1950s till around 1972* the price of petroleum was stagnating, this meant 7-8$ per tonne. By *1974* this level extremely jumped up to 33$ per tonne. After a couple of years the situation was still quite similar, the price rate increased further to 50-60$ per tonne, in *1976-78*, and finally once more in *1979*. Moreover, after the shocking changes in oil prices one more dramatic moment was the discovery of oil fields in the North Sea; by *1981* its output was far more larger than home needs and provided a surplus in exports.[100]

6.2. "The Barber Boom"

The year of 1973 held a lot of fateful moments for Great Britain; however, it is inevitable to outline the preceding events which led to *the failure of the Keynesian economics* like the period of "Barber Boom", the inflationary crisis of 1970s, the three day week, and the miner strike.

Regarding the data of *Wikipedia, Anthony Perrinott Lysberg Barber*, who was a British Conservative politician and acted as a chancellor of the Exchequer between 1970 and 1974, linked up to the period of the "Barber boom". *Edward Heath*, the Prime Minister of the United Kingdom from 1970 to 1974 and Leader of the Conservative Party from 1965-1975, appointed Barber as Chancellor of the Duchy of Lancaster and gave him the responsibility for negotiating the entry into the European Economic Community. However, after the death of Iain Macleod, he was a British Conservative Party politician and government minister, on 20th July, six weeks after the election, Barber took over his position as a Chancellor of the Exchequer.[101] During this position he made mostly *taxational measures*, he proposed to use Value Added Tax (vid.inf.

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[99] Broadberry, Stephen. 2006. *Market Services and the Productivity Race, 1850-2000 – British Performance in International Perspective.* Cambridge University Press, p. 330.
[100] Pollard, Sidney. 1983. *The Development of the British Economy Third Edition 1914-1980.* Edward Arnold Pty Ltd., p. 286-287.
[101] Wikipedia – The Free Encyclodedia. 2015. *„Anthony Barber".* Available online at <https://en.wikipedia.org/wiki/Anthony_Barber> (22 Nov. 2015; 11: 26)

Investopedia)[102] insted of purchase tax (vid. inf. *Financial Dictionary*)[103] and Selective Employment Tax (vid. inf. *Wikipedia*)[104]. It is interesting to see that the VAT rate was cut after one year, from 10% to 8%. Barber also reduced direct taxes. The determinant economic condition was the tendency of *stagflation*, therefore in the year of 1972, he delivered a budget which was created to bring back the Conservative Party to power, in 1974 or 1975. This budget led to a period which was called as "The Barber Boom".[105]

6.3. "Three Day Week"

The most alarming consequences were a result of the previously mentioned measures the high inflation rates (over 20%), wage demands, and the more and more increasing oil prices. However, it is also really important to note the significance of the "Three Day Week" in Great Britain's economic history, which was also known in the country as "The Last Big Blackout"[106], as the Sunday Express identified this time. This period lasted officially from 1st January to 6th March in 1974.

According to *Neil Clark* in the article of *The Last Big Blackout: 40 years ago the lights really did go off* , winter was such a "dramatic time for the country", therefore it was doubtful that the people could survive this lean period. Everything started in 1973 with the *oil embargo* when Arab countries started to reduce supplies to the West of course with "rising coal prices" and "quadrupled oil prices". The inflation rates showed a continguous increase; therefore, there were more and more *structural weaknesses* in the country during the 1970s. As for the *Sunday Express* Britain's miners rejected a pay increase and they sticked to a *"national strike"*

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[102] Value Added Tax is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. This kind of tax is mostly used in the Europan Union. (Investopedia. 2015. *„Value Added Tax – VAT".* Available online at <http://www.investopedia.com/terms/v/valueaddedtax.asp> (21 Nov. 2015; 18: 09)

[103] Purchase Tax is a proposed tax on a purchase, rather than on a sale. (The Free Dictionary by Farlex, Financial Dictionary. 2003-2015. *„Purchase Tax".* Available online at <http://financial-dictionary.thefreedictionary.com/Purchase+Tax> (21 Nov. 2015; 18: 15)

[104] Selective Employment Tax was a weekly payroll tax in the United Kingdom. This kind of tax was intended to help export. (Wikipedia – The Free Encyclopedia. 01/02/2015. *„Selective Employment Tax".* Available online at <https://en.wikipedia.org/wiki/Selective_Employment_Tax> (21 Nov. 2015; 18: 24)

[105] Wikipedia – The Free Encyclopedia. 2015. *„Anthony Barber".* Available online at <https://en.wikipedia.org/wiki/Anthony_Barber> (22 Nov. 2015; 11: 26)

[106] Clark, Neil. Sunday Express. 21/11/ 2013. *„The Last Big Blackout: 40 years ago the lights really did go off".* Available online at <http://www.express.co.uk/news/uk/444213/The-Last-Big-Blackout-40-years-ago-the-lights-really-did-go-off> (22 Nov. 2015; 14: 22)

movement which lasted for one year and symbolized the displeasure in the society with the current economic situation and system.[107]

The following statistics from *The Economist* give a detailed overview about the measure of *oil dependency* in Great Britain during the year of the first oil crisis. The title of the figure *We're most dependent on oil than you think* carries already the point of the article, namely the importance of oil supply significantly increased over the years. However, it can be said that most of the society only faced with this fact after the implementation of the oil embargo. Regarding the figure three different summaries can be seen next to each other, each of the three are associated with the oil supply.[108]

The first one (see figure 4.) introduces *"the most relevant oil importing countries in 1973"*, exactly ten countries are listed on the graph. The first three countries are Saudi Arabia with its 20% of total oil imports, then this is followed by Kuwait by around 18%, and the third one is Libya with its 14% of total oil imports. Iran and Nigeria are also among the listed countries, by around 13%, and by around 11%. Abu Dhabi, Quatar and Iraq have really similar values, all of them fulfil around 5% of total oil imports. The last entry is Dubai with its almost 3%.

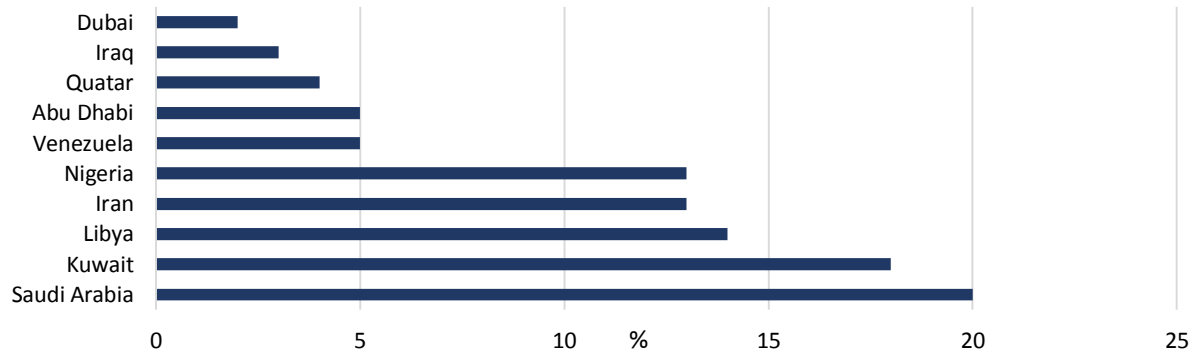

Figure 4. We're more dependent on oil than you think- Where does it come from?
% of total oil imports from
Graph from The Economist. 27/10/1973. Vol. 249, p. 95.

The second one (see figure 5.) gives information about *"the consumption of primary fuels in 1972"*. As for *The Economist* among the primary fuels oil has the biggest part in the consumer percents, its value almost reaches half of the consumption by around 48%. After the oil comes

[107] Clark, Neil. Sunday Express. 21/11/2013. *„The Last Big Blackout: 40 years ago the lights really did go off"*. Available online at <http://www.express.co.uk/news/uk/444213/The-Last-Big-Blackout-40-years-ago-the-lights-really-did-go-off> (22 Nov. 2015; 14: 22)
[108] *The Economist*. 27/10/1973. "We're more dependent on oil than you think", Vol. 249.

the coal by around 36%, then the value of natural gas with its around 12%, the nuclear electricity by around 3%, and finally the rate of hydro electricity with its only 1%.[109]

Referring to the nuclear electricity, it is interesting to mention that after the introduction of restrictions on oil the *"Central Electricity Generating Board (CEGB)"* have decided about the fact that they would like to order two or three *nuclear power stations* by the year of 1974, and the interesting part is that their requirements only can complied with "American design". Regarding *The Economist* the American types were the best investments because of their reliable quality and the main advantage was that "their cost and construction time was predictable". The *"General Electric Company (GEC)"* had an important role in Britain's nuclear power construction industry, therefore it had an important role also in the decision making process. The GEC agreed the point of the CEGB. It was generally accpted by 1973 that "the oil fields at the North Sea should make Britain self-sufficiant in oil" by the early 1980s. For this reason it might be questionable why was the CEGB so excited about the Arab activities at that time. In the society several forecasts were revealed about the option that the opening of the *North Sea oil fields* would be accelerated, but that was technically impossible. The date of the opening was already layed down matching to the planned points of the time-table.[110]

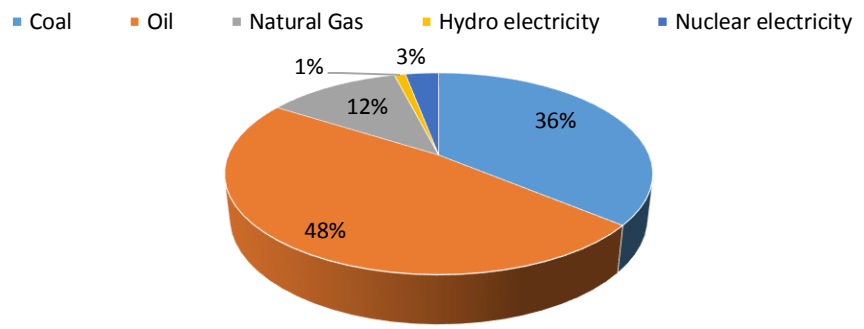

Figure 5. We're more dependent on oil than you think - How much do we depend on it?
Consumption of primary fuels in %, 1972
Graph from The Economist. 27/10/1973. Vol. 249, p. 95.

[109] *The Economist*. 27/10/1973. "We're more dependent on oil than you think", Vol. 249.
[110] *The Economist*. 27/10/1973. "Nuclear Power: Buying American", Vol. 249.

The last graph (see figure 6.) provides an answer for the question of "*Who uses the oil in Great Britain in 1973?"*, and in the case of this statistics ten different fields are mentioned as possible consumption areas. It is not suprising at all, that the road and air transport is the primary field that should be highlighted with its maximal exploitage of available oil stocks. It can be said that agriculture and railways have similar values, both of them are around 75%. Public services and other industries are in the same position because their rates are around 50%. Miscellaneous has around 40%, and the category of iron and steel has around 30%. The territory of domestic has its only 10% from the total energy consumption, the electricity's value is around 30%, and the level of all final consumers almost reaches the half of the total value.[111]

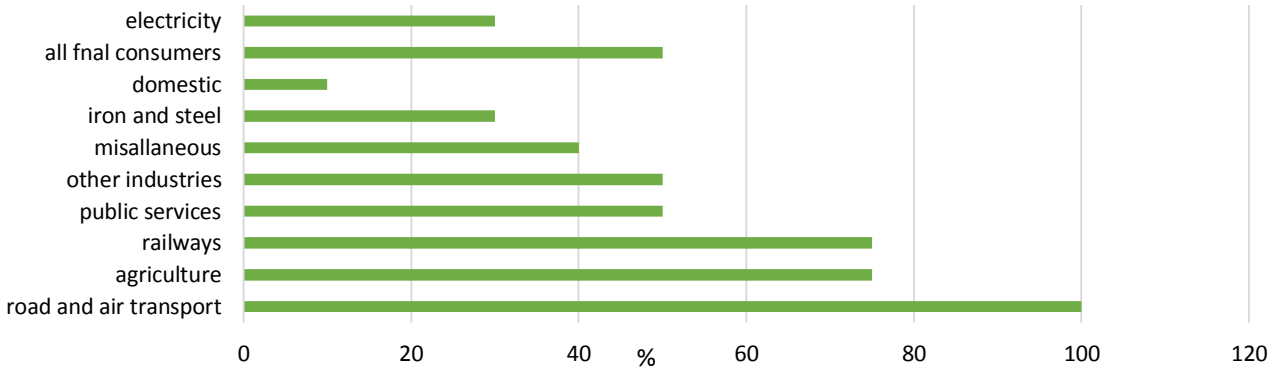

Figure 6. We're more dependent on oil than you think - Who uses it?
Oil as % of total energy consumed by
Graph from The Economist. 27/10/1973. Vol. 249, p. 95.

As a result of these circumstances the Keynesian economic system's time has come; the creation of a new and efficient economic system was necessary in order to consolidate the country's situation, this was the *monetarist policy throughout the early 1980s.* What was the main concept of the Keynesian economy and what was the most important characteristics of the new one? Regarding *Investopedia* the *Keynesian concept*'s main message was the following:

> "[i]t was an economic theory of total spending in the economy and its effect on output and inflation. This theory was invented by the British economist John Maynard Keynes during the 1930s in an attempt to understand the Great Depression. It is considered to be a *"demand-side" theory* that focuses on changes in the economy over the short run."[112]

[111] *The Economist.* 27/10/1973. "We're more dependent on oil than you thin", Vol. 249.
[112] Investopedia. 2015. *„Keynesian Economics".* Available online at <http://www.investopedia.com/terms/k/keynesianeconomics.asp> (22 Nov. 2015; 14: 25)

In addition, regarding *Investopedia* the term of *monetarism* was really widespread in the *early 1980s*, after the period of the Keynesian economics, this concepct was based on the belief that:

> "[i]nflation depends on how much money the government prints. Milton Friedman argued that the government should keep the money supply fairly steady, expanding it slightly each year mainly to allow for the natural growth of the economy."[113]

This concept believed in the effective force of changes in money supply.

Concluding these two economic models, the big difference between the Keynesian and the monetarist economic policy is that *the first one focused on the demand-side; however, the second one focused on the supply-side.* The monetarist economy for the first time was not so popular in the society, but this was a sensible policy and on a long-term the implementation of this new economic system was useful and was truly advantageous for the economy of Great Britain.

The *Sunday Express* provides a detailed overview of the British society's everyday life during the *"three day week"* period of the country. Continuing the previously discussed events, on 13th November, Edward Heath declared a *"state of emergency"*. This step included that the electricity usage for foodlighting, advertising, and for the heating of shops, offices and restaurants was banned. In early December new emergency measures were implemented, based on Neil Clark's article, these measures included fifty mph "speed limit", a "heating limit" of seventeen degree and a "reduction in street lighting". In the daily life locals had to use candlelight and tried to do everything possible in order to handle these circumstances. When the interviewed people tried to write down the situation at those days, they said that this blackout was not surprising at all for the society and did not come from nothing. The papers reported about the expected governmental arrangements, so the society had enough time to prepare accordingly for the changes. By the middle of December, the *electricity reduction* was nearly holistic; from five days of energy consumption it reduced to three days of energy consumption a week. The *Sunday Express* wrote that the "three day week" extended to all industries (three day working week) and a 10.30 pm shutdown for television except for Christmas time. Moreover, according to the article's findings, other eye-catching factors were in that time the followings: *some businesses went bankrupt, others developed.* The selling rates of candles and camping gas reached their peak; the football matches were shifted from evenings to afternoons.

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[113] Investopedia. 2015. *„Monetarism"*. Available online at <http://www.investopedia.com/terms/k/keynesianeconomics.asp> (22 Nov. 2015; 15: 00)

Summing up the above written, it can be clearly seen that this period was *not at all such an economic downturn as many economists had predicted.* The industry production was less damaged and the unemployment rate was also not so high against the predictions. The winter of 1973/1974 was a really good model to prove that *the British could cope together in critical times.* As the article's title says although "the lights really did go off" in Great Britain, but thanks to the public spirit and solidarity the people were heroes and survived this hard time.[114]

6.4. Election after all?

6.4.1. New election in Great Britain: 28th of February

In the following section *the events of the election period of 1974* in Great Britain will be discussed. First of all, the reasons which led to the election in February then the details of the election process, and finally the consequences of the election's results.

According to *Daryl Worthington*, the year of *1974* was not only the failure of the Keynesian economic system, but also *the failure of Heath's government*. He adds also in his article *"Looking Back on the Three Day Week",* that the energy shortages often explained as a result of the strikes in mining industry and these coalminer strikes could be identified as the aftercomes of the government's anti-inflation policies. The "three day week" period ended on the 7th March in 1974, when the miners returned to work. It can be said that this hard period was evoked only by the miners strike; however, the truth is that the chaos in the government and the first oil crisis of 1973 with the meausre of the oil embargo evoked at least as much this critical time. It could be said that the words of Daryl Worthington are really thought-provoking, regarding the fact that it is so unbelievable that around forty years ago one of the biggest financial and industrial center in the world was forced into part-time working. Therefore, based on these facts the 1970s could be defined as a *"great political discontent"* in Great Britain.[115]

The above mentioned governmental problems led to a new election period, regarding the newspaper *Hungary,* the predicted date was*: 28th of February.* The coalminer's strike was marked as the main cause of the sudden elections. The British press mentioned a "futureless economic cleft", meanwhile the government wrote about "blindfold chaotic measures". However, it seems to be a paradox that despite the alarming headlines of the papers, the head

[114] Clark, Neil. Sunday Express. 21/11/2013. *„The Last Big Blackout: 40 years ago the lights really did go off".* Available online at <http://www.express.co.uk/news/uk/444213/The-Last-Big-Blackout-40-years-ago-the-lights-really-did-go-off> (22 Nov. 2015; 16: 42)

[115] Worthington, Daryl. NewHistorian. 12/12/2014. *„Looking Back on The Three Day Week".* Available online at <http://www.newhistorian.com/looking-back-three-day-week/2405/> (22 Nov. 2015; 19: 12)

of government talked about the economic life of Great Britain only with cheerful prospects. During his interview with one of the colleagues of the parisian *Figaro* newspaper, Heath maintained the new economic possibilites and the continuous improvement of competitiveness. As Heath says the economy was in expansion and the people needed to take care of the resources in order to increase the export activities; moreover, increase the industrial capacity, and had to be available for new investments too.[116]

However, the data helps to find the way out of this contradiction. The miners voted at the beginning of February in 1974 and a clear majority supported the strike. 81% of the voters (*188.000 people*) *supported the action*, only *40.000* people voted *against the strike movement.* After the voting the government tried to convince once more the miners with a *"wage proposal"*, this memorial included that the decisions above miner demands would be the role of the *"royal commission"*, but this endeavour was not successful.[117]

It was clear that after the decision about the *miner strike* the possibility of an exceptional election was ensured. The *Financial Times* published an analysis about the class relations at that time, regarding the fact, that the government had to face with one of the most dangerous social conflict after the war. This is not related to the result of the election, if there was any winner at all, because either of the parties has won the bigger amount of votes, the remaining questions were the same. According to this paper, on one hand the conservative party was still a bankrupted system, on the other hand the labour party still did not ensure peace in different kind of social and industrial relations.[118]

6.4.2. Edward Heath and Harold Wilson – who will be the winner of the fight?

Before moving on to the election's results and consequences, in some words *the election process* should be analysed for a better understanding. *Károly Patak* in his article provides a detailed outline of the essential elements of the progress. The most important fact is that *Edward Heath and Harold Wilson* were the *key figures* of this period because they represented the election declarations during this campaign. All of the parties prepared with winning programmes and promised significant changes in the future prospects. On one hand, *the labour party* offered a really attractive electoral alternative whose main concept was the program of

[116] Gárdos, Miklós. 1974/6. "England, Election after all? The idea of the "royal commission". An oppositionist declaration." *Hungary*, No. 7.
[117] Gárdos, Miklós. 1974/6. "England, Election after all? The idea of the "royal commission". An oppositionist declaration. 188.000 yes votes. *Hungary*, No. 7.
[118] Gárdos, Miklós. 1974/6. "England, Election after all? The idea of the "royal commission".An oppositionist declaration. Tory-hopes. *Hungary*, No. 7.

nationalisation, within this, extending the social responsibility for the major industry sectors. This step involved also the oil fields at the North Sea, besides other special characteristic was the fact that "collective wage fight" meanwhile became effective again. The original purpose of the labour party's was the creation of a new *"social contract"* and with this meausre the intent to serve the balance of power of the workers and their families favour. On the other hand, regarding the proposal of *the conservative party*, they were interfering into the choice of directorate and devolving the strike participants'social security benefits for the trade unions. There was one more party in the parliament at that time, namely *the liberal party*. They believed in a policy of income restriction with the arrangements of criminal tax, increasing corporate competition, plus divided monopolies.[119]

The interesting part is, actually the only one common point between the candidates, that all of them *withdrawed their collective market trend.* In the article of Patak, the communist party's interest was explicitly the abolition of market membership. Because of the miner strike and the more and more intensifying economic crisis, based on the view of labours, the only one solution for the evolved situation was their accession to power and the support of left-wing politics. After a long childish fight accompanied by a lot of calumniations, the only one thing that still missed from all sides was an exact and concrete governmental draft.[120]

Regarding the data of the article, after the first campaign week the oil price increased above 50 penny per gallon; moreover, parallel with the oil data, the price of domestic oil fuel also showed a growing direction. To make the situation worse, there was a drastic rise in retail prices too, what for the evidence was the 20% price upgrowth for food. However, these shocking news were not so dramatic for everyone, like Wilson, who was really watchful at that time and tried to enjoy the benefit of this terrible economic condition. He played hardball to reach his goals; therefore, every effort he made was in order to turn the situation in favour and win the sympathy of the voting audience. That was the way how he started to deal with the *interests of the housewifes*, so we could state that this layer was the new target of all governmental actions. Not a day has passed after this without newspaper surveys and their results which reflected the current social mood of the society. However, the *voting results were different every day*, there was no integrated tendency, that is why the director of the *Opinion Research Center* claimed that the misplacement rate for information could be even 6%. Concluding the previous step

[119] Patak, Károly. 1974/8. "England. Four parties, four declarations. Start, statistics, viewers. Program confronting. *Hungary*, No. 3.
[120]Patak, Károly. 1974/8."England. Four parties, four declarations. Start, statistics, viewers. Arguments, pre-arguments. *Hungary*, No. 3.

before the actual election phase it can be seen that the data of research institutes did not clearly show the exact position of the social struggle, therefore the *odds* were furthermore *equal and open*.[121]

During the campaign the leaders tried to pay much more attention about the configuration of their personality cult, at least as the *BBC* saw this period. Edward Heath headed press conferences while Harold Wilson organized his own ones and appeared more and more in television. Wilson had his own campaign tricks including that he tried to make a good impression in the eyes of the public with the help of his wife highlighting his image as a "family man"; which was a really clever ploy against Heath who was without family in those days. Every news and reports showed that this strategy was successful for Wilson because his calm and peaceful style seemed to be beloved among the people, so it could be said that this turn had a great influence on voter's behaviour.[122]

There were several economic problems which were discussed during the campaign such as the runaway prices, the rising rents, the growing interest rates, the heated relationship with trade unions, the government debts and the revision of common market entry. Neither Heath nor Wilson said anything about the further ideas and steps. As it was previously mentioned, Wilson was too busy with his personal popularity in the middle class and he mostly tried to begrime the past of the Conservative party. However, the campaign technics will be detailed in section 6.4.3.[123]

Besides these gloomy forecasts the inflation growth was also really high,the situation in the export competition was worse from day to day and the first profit values of large companies gave negative results as well. In other words, all of these worrying facts which were the results of the Labour policy based on the Conservative party's opinion and also the results of the Conservative policy based on the Labour party's view. No matter how they have been called, rather the main point is that these data were really close to the objective reality.[124]

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[121]Patak, Károly. 1974/8. "England. Four parties, four declarations. Start, statistics, viewers.The television and the housewife. *Hungary,* No. 3.

[122] BBC – politics 97. 1997. *"18 June 1970".* Available online at <http://www.bbc.co.uk/news/special/politics97/background/pastelec/ge70.shtml> (16. 02. 2016; 14: 28)

[123] Patak, Károly. 1974/8. "England. Four parties, four declarations. Start, statistics, viewers. Arguments, counter-arguments. *Hungary*, No. 3.

[124] Gárdos, Miklós. 1974/42. "England, How long enough three votes?. Two record-holders: Wilson and Heath. The crisis data of the British economy. *Hungary*, No. 3.

6.4.3. Further steps to do

What follows in this section is a description of the time of the election on the 28th February. In another article by Károly Patak, the campaigning techniques are also explained, like during the campaign period the method applied by the labour party, was the regular review of others' failures and difficulties. The other side, the conservative party, identified the strikers as minorities. As for their opinion, the strike movements were only led by extremists who wanted the worst for the country, namely the miner national strike started on the 10th of February parallel with the campaign. What is also important to note that from the 13th of November they did not fulfill any overtime, therefore there were only more and more economic and financial difficulties. Regarding the article, by January the pressure was already culminated between the strikers and the conservative party; moreover, the election fever also rampaged. Heath had three opportunities: *provide a "wage compromise" to the leader miners, a "long and devastating strike for the miners", or the "setout of election"*. On top of this, a probable parliamentary revolution threatened Heath's power.[125]

The economic situation did not show any improvement, although the conservaties could reserve with the oil supply; however, the implement of the "three day week" caused a lot of trouble in the economic production. The writer brought up a great example, namely the production of steelworks declined by around 20%. This loss led to wage problems, the *wage problems* led to factory closures, and the *closures* automatically led to an *increasing unemployment rate*. What is certain that all of these elements were connected and dependent on each other. Looking back to the time before 1970s, during Heath's leader policy whose most important point was the concept of *price reduction,* even so during his three and a half years a 48% increase could be seen in the price of food.This was exactly the main argument of the labour party during the election period, moreover the miner's too. To make the situation even worse, the whole structure of wage restraincy was established at that time when there was no forecast about the sudden foreign oil price increase. Great Britain did not have any oil problems, but with this drastic change the role of coal became more significant in the society because its price was half as expensive as the oil price was. From November to February a lot of negotiations took place including the governmental parties, the trade unions, the miners' trade union, and the labour party. However, these negotiations did not bring any results and progress,

[125] Patak, Károly. 1974/7. "England. 28th of February. Election next to strike movements. Heath escaping in advance. The danger of a parliamentary revolution. *Hungary*, No. 4.

in addition the strikers very slowly but surely got fed up with the long wait and countless promises.[126]

Therefore, as a conclusion it could be said that the decision was not surprising from the side of the miners, namely *twenty-seven members of the executive committee on a scale of 4:1 decided next to the point, that the strike keep going during the election campaign too.*[127]

6.4.4. How did the national and international crisis interweave in Great Britain?

What is sure based on the article from the newspaper *Hungary* , that from 1974 the labour party with Herold Wilson took the control over the country because he was the winner of the election, but it is important to stress that this victory was not a *"real victory"*. The ruling party had no absolute majority; moreover, a few days after the election period the most important characteristics were that the conservative party was still in function and kept trying with government forming efforts. In general it could be said that this was a strange situation in the life of the country; however, it was absolutely not a big surprise, since the labour party had no reliable ally in the parliament, so it was clear that forming a minority party was the only outcome after the results were revealed. In order to reach the absolute majority for Harold Wilson only seventeen mandates would have been necessary and for Edward Heath thirty-two mandates was missing. The happenings demonstrated two significant things, first of all, the "rusting" of the English society actually led to a national crisis; secondly, all these events happened during the period of such an international crisis, which for the society proved to be really challenging. Moreover, it can be seen that already ten years before the time of the election, a social tension was present in Great Britain. Therefore, it can be said that such a national crisis was the final consequence to sadden a large and deeply disappointed middle layer of the industrial society.[128]

The food prices during the three-year-old governance of the conservative party increased by 53%, at that time Edward Heath trusted falsely on the fact that because of the miner strike the middle layers would blame the trade unions for everything, as well as his absolute majority would be ensured by this wave. However, as it was predicted he was wrong because he has not counted with the measure of disappointment in the society. As regards the international crisis

[126] Patak, Károly. 1974/7. "England. 28th of February. Election next to strike movements. Heath escaping in advance. "The miners' debate". *Hungary*, No. 4.
[127]Patak, Károly. 1974/7. "England. 28th of February. Election next to strike movements. Heath escaping in advance. On a scale of 4:1. *Hungary*, No. 4.
[128] Gömöri, Endre. 1974/10. "Englad. Narrow plank. The governence of Herold Wilson and its main emphasis. Moods and combinations. Mathematic and life. *Hungary,* No. 5.

of the capitalist world economy, it was quite clear that there was no solution for Great Britain, at least for short-term. There was not any chance to handle this unfortunate situation on a national level. This was the reason why the impact of *national and international crisis was interweaved.* Finally, the question could arise, namely what was the policy that impacted this drastic condition? The evolved situation itself limited the power of Harold Wilson and the activity of his party.[129]

[129] Gömöri, Endre. 1974/10. "Englad. Narrow plank. The governence of Herold Wilson and its main emphasis. Moods and combinations. "Interweaved crisis?". *Hungary,* No. 5.

7) After 1973: the results of the seventies in Great Britain

7.1. The foreign exchanges and the EEC

Regarding *J.F. Wright*'s book, *Britain in the Age of Economic Management – An Economic History since 1939,* the "devaluation policy" of the 1930s had been a favourable alternative to deflation. The term *"devaluation"* can be defined as:

> "[a] deliberate downward adjustment to the value of a country's currency, relative to another currency, group of currencies or standard. Devaluation is a monetary policy tool of countries that have a fixed exchange rate or semi-fixed exchange rate. It is often confused with depreciation, and is in contrast to revaluation."[130]

It is important to note that the situation in the 1960s was different of the situation in the 1930s. In the 1930s high level of unemployment meant an important problem in the export trades. By 1967 there was full employment. The deflation policy had an essential role by "cutting back the governmental expenditure", and "reducing the extant incomes of consumers". Higher taxation rates could not had been avoided because these rates were accompanied by the deflation policy. Devaluation did not work as quickly as had been hoped; however, by 1969 the *"trade balance"* was re-established, and this correction resulted in "surplus" formation. The balance was achieved at a level of "internal demand" that enhanced definitely the level of unemployment.[131] It could be said in general that in 1971 a *"regime of variable exchange rates"* became the new system. *Policonomics* defines exchange rate regime as follows:

> "[a]n exchange rate regime is the system that a country's monetary authority, -generally the central bank-, adopts to establish the exchange rate of its own currency against other currencies. Each country is free to adopt the exchange-rate regime that it considers optimal, and will do so using mostly monetary and sometimes even fiscal policies."[132]

During the Barber boom the demand increased a lot, and prices raised more quickly than at any time since the Korean War. Entry in the *European Economic Community (EEC)* was actualized between 1973 and 1978; this organization was an economic integration.[133] It could be said in general that "one of the most important drivers of economic growth in Western

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[130] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 161-162.
[131] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 162-163.
[132] Policonomics – Economics made simple. "*Exchange rate regimes: Definition.*" Available online at <http://www.policonomics.com/lp-exchange-rate-regimes-exchange-rate-regime/> (05 Dec. 2015; 16: 42)
[133] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 163.

Europe was the process of *integration.*"[134] At first, the aim of this type of integrated work was "creating a common market in steel and coal to standardise prices and working and living conditions in the industry and to centralise and rationalise investment."[135] France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg were the founding countries *("The Six")* of the first economic integration in April 1951, which was the *European Coal and Steel Community (ECSC).* The British government rejected the membership because the UK did not want to permit "sovereignty" to a supranational institution, and clung instead to relations with the "commonwealth and the United States". On 1st January in 1958 two international organizations, the *European Economic Community (EEC)* and the *European Atomic Energy Community (Euratom)* came into being. By July 1968 free international trade and a common external tariff was achieved. The success of the EEC in producing increase in trade and incomes was really attractive to other countries to join in 1973; included the UK as well, who became a member on the 1st of January in 1973.[136] Beyond these, the increased oil prices and balance-of-payments crises had a significant role in the 1970s; however, the period of increased oil prices did not last long because of the sudden discovery of oil fields at the North Sea.[137]

7.2. Public expenditure and taxation

By 1950 demobilization of the economy resulted in "current expenditure in goods and services by the Public Authorities to fall to 15.5% of G.D.P, compared with 22.7% in 1946 – not much higher than the 13.4% of 1938." In a wider sense, as for the expenditure rate, which is including National Insurance benefits and the interest on the National Debt, the average value was about 28% in 1950, and this percentage was by 5% higher than in 1938. It is clearly true that before the oil crsis in 1948, *military defence* had the highest value, then it was followed by the *education*, and finally the *National Health Service* closed to the line. The percentages of National Health Service and education shows a constantly growing tendency until 1975. However, the military defence increased by 1.6% from 1948 to 1953 then fell back from 1953 to 1964 by almost 3%, and by 1975 dropped by arund 1% more from its value. In spite of all

[134] Schenk, Catherine R. 2011. *International Economic Relations since 1945 – The making of the contemporary world.* Routledge, p. 40.
[135] Schenk, Catherine R. 2011. *International Economic Relations since 1945 – The making of the contemporary world.* Routledge, p. 40-41.
[136] Schenk, Catherine R. 2011. *International Economic Relations since 1945 – The making of the contemporary world.* Routledge, p. 41-42.
[137]Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 166.

these, as the values are shown, still the military defence had the biggest share of the public authorities' current expenditure.[138]

In general it could be said that the expenditures on *education, health, and welfare benefits* were the main categories of expenditure. In money terms the expense on the *Police Force* increased between the period of 1950 and 1975, from 57$ million to 905$ million; this growing was less than the level of expenditure on education; however, it was definitely more than the expenditure on the National Health Service. This bottom-up change reflects the "heavy demand of traffic control", as well as the cost of cars and sophisticated equipment which were used to replace bicycles. The rate of expense on the *Fire Service* changed in the same way; it reflects both a rise in labour costs and the need for "improved equipment" in order to manage appropriately different industrial risks. In the case of *Libraries and Museums* the extent of change was very similar as well.[139]

As for J.F. Wright two kinds of govermental forecasting can be distinguished: the first one usually done in *"real terms"*, the second one done in *"money terms"*. In order to make the comparability from year to year possible, the method of "real terms" can be used.[140] In Great Britain public expenditure had a relative big importance in the increasing results of economic growth. In the long run a dynamic rise can be seen in the data of *"direct taxes"* (taxes on income) in contrast to *"indirect taxes"*.[141]

The term of direct taxes was already previously detailed, but the term of indirect taxes need to be clarified for a better understanding. *Economics Online* explains this term as follows:

> "[i]ndirect taxes are those imposed by a government on goods and services, in contrast to direct taxes, such as income and corporation tax, which are levied on incomes of households and firms. Indirect taxes are also called expenditure taxes."[142]

In 1948, 45% of the governmental asset was obtained from direct taxation and another 9% from *National Insurance Contributions (NIC)*. In order to have a good view of this whole

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[138] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 165-166.
[139] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 167.
[140] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 168.
[141] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 171.
[142] Economics Online – News Analysis Theory Comment. 2015. *"Indirect taxes"*. Available online at <http://www.economicsonline.co.uk/Competitive_markets/Indirect_taxes_and_subsidies.html> (06 Dec. 2015; 18: 50)

system it is necessary to define what the National Insurance Contributions contains exactly. Regarding *Investopedia* the term can be explained as follows:

> "[p]ayments made by employees and employers into the United Kingdom's National Insurance (NI). National insurance contributions initially funded programs for the ill and unemployed, and later on eventually paid for state pensions too. Contributions fall into categories which can either count toward an individual's eligibility for benefits or are paid without counting towards any type of entitlement depending on the category it falls under."[143]

By 1975, after the first oil crisis, the rate of direct taxes was more than in 1948, with its 49%; moreover, National Insurance Contributions were also much more higher than in 1948, with 21% of "central government revenue".[144]

7.3. Inflation rates

Between the period of 1935 - 1975 the prices in the U.K. increased eightfold. Throughout this period the phenomenon of inflation was not unique to the United Kingdom, since in the War and during the post-war period from 1939 until 1953, and at the beginning of 1967 a *dynamic rise in import prices* can be observed. The inflation rates of 1939-1953, which were examined in a wider extent, were relatively small because almost *"all currencies depriciated against the dollar"*. Between 1953 and 1967 inflation in the U.K. was only less faster than in other countries; however, it is important to note that the difference in *"export price levels"* was much more higher than in *"internal price levels"*. Until the early fifties inflation was abnormal but the period of wars had usually been resulted in huge increases in prices. After the 1950s, the next fifteen years was the period of inflation; it was the perfect time for adopting institutions and expectations; moreover, creating a "foundation for the explosive inflation of the 1970s".[145]

By the 1970s wages rose quicker than they had ever done and destroyed the so called *"Philips Curve relationship"*[146]. In 1972 the policy of incomes and official prices were resumed. This policy was broken by the miners and the conservative party in 1974. In the period of 1972-1974

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[143] Investopedia. *"National Insurance Contributions (NIC)".* Available online at <http://www.investopedia.com/terms/n/national-insurance-contributions-nic.asp> (06 Dec. 2015; 19: 34)

[144] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 171.

[145] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 173-177.

[146] The Philips Curve relationship was the relation between prices and employment for a long period during which inflation had never been expected. It was capable of two interpretations: (i) for a quite low rate of inflation a high level of employment could be purchased or (ii) it would always be possible for the managers of the economy to turn off inflation by producing some increase of unemployment. (Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 177.)

the *rise of the price level* in Great Britain could be directly interweaved with the *rise in the world market prices* of imported food or materials which could not be provided from domestic resources. However, in the case of *house building* the increase in price level was directly connected to the "excess demand for goods themselves".[147]

According to J. F. Wright the most important question was, then, *"How far the inflation in the United Kingdom, which was undoubtedly primarily associated with an increase in labour costs, was itself associated with a high level of demand for labour?"*. Regarding this question the following can be said:

> "[i]n the process of wage-negotiations, claims were put forward and discussed on grounds of cost of living increases, increased wages in comparable occupations, productivity increases, and the profitability of the employing firms. In one extreme view, all this was superficial and disguised the operation of simpler, more basic, forces of supply and demand. In this view, the outcome of negotiations was primarily determined by the real bargaining power of the two sides, the balance of which was affected by the general level of demand; the higher the level of demand, the more employers had to lose from a strike in lost sales, and the more easily employees could find other jobs to support them temporarily."[148]

A "*tighter monetary policy*"was the most important characteristic of the period between 1974 and 1975. The aim of this policy was to control the extent of increasing wages in the private sector. The industrial situation was a determining factor reffering to the wage rises because a very large part of industry had *bankruptcy* problems. As for J. F. Wright the control of monetary expansion was a favourable movement in order to control the increasing inflation successfully; however, it can be highlighted that it would be a big mistake to believe that an economy with a large public sector and with many financially weak firms could be controlled in the way the *Bank of England* had controlled the pre-1914 economy. It can be clearly seen that the British Governments after 1960 did not increase public expenditure and taxation as rapidly as they did before, therefore "the incomes of labour had risen more quickly and there would have been less inflation". Moreover, a lots of arguments proved that by wage calculation it is really important to maintain *standards*, namely "the unions took acount of the high rates of taxation incured by their members on any increase in their money income".[149]

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[147] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 177-178.
[148] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 178-179.
[149] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 180-181.

7.4 Unemployment as a regional and national problem

There was no doubt that at regional level the developed areas had more problems because of their increasing unemployment rates, therefore more and more *"employment creating projects"* were implemented in order to solve this unfavourable situation.[150] At national level, until 1965, there was only a little sign of long-term unemployment rates. After 1966 its value reached the level of 600.000, then between the period of 1972 and 1974, before the time of the Barber boom it touched the level of 950.000, and it never fell back below 500.000. During the fifties and sixies a drastic reform of the credit system ("*Competition and Credit Control, 1971"*) was fulfilled and this step led to the most alarming financial crisis in Great Britain since 1866. After the first oil crisis, the cirsumstances of 1974 resulted in the end of the boom in 1972-1974, and the end of "longer investment boom of the sixties and early seventies".[151]

The drastic reform of the credit system, namely the *Competition and Credit Control* meant the following for *Duncan Needham*:

> "[c]ompetition and Credit Control was a new framework for monetary policy introduced in the UK in 1971. It was an attempt by the monetary authorities to replace the post-war system of credit 'rationing by control' with credit 'rationing by cost' through more active use of interest rates. The policy was devised by the Bank of England and imposed on an apparently reluctant Treasury."[152]

7.5. Investment and the financial system

C. H. Lee is dealing with the British economy as well, but the timeframe of his investigated period is the economy from the 1700s. The interesting part is that he is definitely using a macroeconomic perspective in his research which makes the book of *The British economy since 1700: A macroeconomic perspective* much more exciting. According to him, the *British financial system* was established in 1914 and a unique characteristic of this system was that it had a strong connection to international finance because the most important changes during the function have been linked to international events. Selling the foreign assets and creating loss in the overseas during the two world wars influenced the banks in the same way as the insurance companies did as well. In the 1920s, the necessity of investment was the most urgent need at home in the territory of *housing.* However, it had an important role also in the case of *sterling*

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[150] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 182-183.

[151] Wright, J.F. 1979. *Britain in the Age of Econonomic Management – An Economic History since 1939.* Oxford University Press, p. 183-184.; 189-190.

[152] Needham, Duncan. University of Cambridge – Talks.cam – Financial History Seminar. 16/11/2009. *"The Political Economy of Competition and Credit Control"*. Available online at <http://talks.cam.ac.uk/talk/index/20746> (09 Dec. 2015; 09: 56)

exchange rates. Its value went through tough times, especially in 1925, 1929 and 1931. By the 1930s, the new tendency was the rising expansion of the *British investment* which followed the previously determining factor in the economy, the British trade. Moreover, it is important to note that these new ways oriented even more and more towards the Empire. The Second World War meant a "massive increase" reffering to the "sterling balances". The member countries of the so called "sterling area" were mostly "colonial and dominion countries", but there were the others whose trade connections were extremely appreciable with Britain. The war was financed through import activities, such as importing different kind of goods from India, the Middle East, and Commonwealth countries and these processes were paid by sterling credits. After the war, the measure of "deposits" had increased a lot. The sterling exchange rates have been compromised, and by the 1950s "both the size of the sterling area, and the role of sterling as a major reserve currency at international level were cancelled." This was the time of *"the declining role of British finance in international investment"*.[153]

After a long depressed period which had lasted since the First World War, the internaitonal economy was recovered successfully and Western European countries returned to full convertibility of their currencies against the dollar. The end of the 1950s was the time of the evolution of constantly rising and booming market, the *Eurodollars.* This new territory ensured a lot of attractive international opportunities for the British financial institutions in the future. The Eurodollar business showed flourishing values, by 1959 the size of the market became twice as high and in 1960 it doubled again. In the 1970s, before the time of the first oil crisis an increasing tendency can be seen in the Eurodollar market because of the increase in oil revenues in the 1970s.[154] The Eurocurrency market was not attractive only to foreign banks, it also increased the level of *"interrelatedness"* between banks. Therefore, at the international level the form of *"interbank lending"* was often used . The wind of *"internationalism"*strongly influenced the domestic economy as well. There were a lot of changes in the distribution of investment which formed constantly the exchange rate. Furthermore, the growing measure of interrelationship between the financial institutions resulted in the symptom of *instability*. This uncertainty was present in the economy since "loans cannot be secured against property or by a third party guarantor". By the 1980s, the level of liabilities was 75% of the total debts and

[153] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 174-175.
[154] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 175-176.

credits of British banks which also proves the fact that the British economy need to be examined in an international rather than a national context.[155]

The *reconstruction* of the financial system was one of the most important discussion topic at this time. C. H. Lee says the following about the future of the British economy:

> "[c]ertainly, it seems unlikely that the British economy will become much more attractive to investors without some intervention in the markets, but a major change in the financial system seems likely to diminish the earnings from international finance more surely than to regenerate British industry."[156]

7.6. Production and productivity

In general it can be said that a major increase in GDP per head was the result of the rising growth rate of aggregate supply. This tendency was a much more faster process from the end of the First World War until the late 1970s than it was before in 1914. It is important to note, that there were three main sectors which influenced the measure in the growth of GDP. The first one was the *"manufacturing sector"*, the second one was the *"service sector"* which was a determining element until the 1970s as well. Last but not least, the third element was the *"mining sector"*, mainly with its offshore oil production.[157]

According to C. H. Lee *"capital inputs"* were also important components in the rate of growth in GDP, although it is true that there has been a declining tendency in recent years. Referring to the various growth of capital inputs it can be said that the size of the businesses, and a production policy with the main focus on capital intensity were decisive factors. However, it should be mentioned that the main British firms, all mulitnational corporations, were still rather small compared to some other American firms. C. H. Lee enhanced the examples of British Petroleum with a capital of 28.9$ billion in 1981, and the Royal Dutch/Shell Group with 13.1$ billion because these two were amongst the largest multinational corporations in 1981. However, the other smaller British firms were only ICI 5.2$ billion, BAT 5$ billion, Unilever 4.2$ billion, and GEC 4$ billion. What is certain that these major companies did not work with a "massive labour force", therefore the capital intensity instead of the labour intensity was not a surprise. Regarding the data of C. H. Lee's book, Unilever had 343.000 workers in 1981, and this value was the highest level of employment rate at this time. The two leading companies,

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[155] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective*. Cambridge University Press, p. 176-178.
[156] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 182.
[157] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 183.

the Royal Dutch/Shell employed 166.000 people, and British Petroleum 153.300 people, the others employed many less. Furthermore, it is also important to highlight that not all of the employments were located in the "domestic economy". As for C. H. Lee the home-based employment in British Petroleum was only 27%, and in Royal Dutch/Shell only 19%. The other firms, like Vickers, ICI, the Imperial Group and GEC employed between 56-77% of their workers in Britain, notedly in Stopford. This multinational tendency involved significant changes in production policy towards capital intensity and started to form the new characteristic of nineteenth- century industry, namely the labour intensitve production.[158]

In the interwar years an increasing tendency in labour inputs can be examined, but since the Second World War the thriving results started to decline slowly until the late 1970s. This resulted in structural changes in the "composition of employment", namely there was a "little net loss" in employment, the only sector which was affected in a stronger extent was the sector of agriculture. By the 1970s, there was a net increase in employment rates with almost 5.4 million jobs. There were significant changes in the territories of engineering, the vehicle production, instrument and electrical engineering, but the biggest rises in employment was seen in the service sector (banking and finance). Regarding the details of the book, the number of employed in the sectors of banking and finance were increased by around 4 million people from 1911 to 1981.[159]

7.7. Foreign trade and payments

According to C. H. Lee *export* activity was a problematic territory for the economy since 1914. During the period of 1930-1938 the ratio of export activities has declined compared to the earlier years because from 1855 until 1929 this value was around 18% , then it fell back to 10.9%. However, since the 1950s this value started to increase again from 16.6% to 20.5% until the period of 1979-1983. The exports was the combination of different kind of goods which were in constant changes in certain periods. In the nineteenth century the most characteristic commodities were textil goods, especially cotton goods. Besides the previously mentioned goods iron, steel, coal, textile machinery, and railway stock were the other important components of the exports. The twentieth century brought some significant changes referring to these industries because most of them went through an economically declining period at this

[158] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 184-186.
[159] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 186-187.

time. The eye-catching increase in the export rates during the period of 1973-1983, so after the first oil crisis, appeared promising for the growing tendency of economy in Great Britain. However, it showed the slowing down in the growth of GDP, and the impact of sales of North Sea oil.[160]

The *ratio of imports to GDP* showed an increasing tendency from 1855 until 1929. After this period the values started to sink from around 23% to around 16%. A minimum value was 16.5% between 1964 and 1973. However, after the first oil crisis a similar improvement can be seen as in the case of exports. From 1973 until1979 the rate moved up to 19.4%, and between the period of 1979-83 it reached already the value of 20.1%. The structural changes of the twentieth century in production and trade brought a lot of changes in "the composition of British imports". In the late nineteenth century the two main ingredients of imports were foodstuffs and raw materials. Since 1914 a relative decline can be seen in foodstuffs and raw materials, but the import ratio of manufactured goods showed a prosperity, "from 5.3% in 1913 to 11.6% by 1973". Fuel imports had a steady growth through the century. C. H. Lee highlighted the following:

> "[b]ut the main change has without any doubt been the massive increase in *the import of manufactured goods* from 19.7% of all imports in 1951 to 62.5% thirty years later. The composition of such imports has been diversified to include machinery, office equipment, telecommunication equipment, consumer goods, motor cars, textile and clothing, iron and steel and ships."[161]

The ratio of net services to GDP in 1855 was 4.7%; however, by the 1930s this value dropped to 0.9%. The lowest level was 0.2% before the first oil crisis, but after 1973 it was growing again. The net income from abroad reached its peak value in the period of 1891-1913 with its 6.8%. By the 1950s this rate fell back again and again so by the 1980s it was only 0.4%.

The *balance of trade* and the *balance of payments* are also between the examined categories. The ratio of balance of trade to GDP was 1.7% in 1855 and until the time of the first oil crisis this rate became a negative rate. From 1973 this tendency has changed and until 1983 its value reached 2.1%. Regarding the balance of payments the best rates were between 1874 and 1913 with its 5%. During the period of 1930-38 this balance turned to a negative direction, but from the 1950s it started to increase again. The two main elements which evoked the decline in the

[160] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 218-223.
[161] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 223-224.

balance of payments were "the fall in the surplus of invisibles and the contraction in the ratio of net income from abroad to GDP". By 1983 it reached the value of 2.5%, which was half of the value in 1913 and before, but it was a favourable rate according to the circumstances at that time.[162]

One of the most controversial topics in the economy is the issue of "relationship between economic growth and international transactions". C. H. Lee emphasizes the theory of "reciprocal relationship between the rate of growth of exports and growth of labour productivity". The so called *"Export-led Growth Hypothesis"* is still an exciting field of research for the economists. The effect of export on growth is also included in these models; these models were suggested by Laumfalussy (1963) and Beckerman (1962). *Laumfalussy* was one of the first economists who suggested the theory in the case of different economic growth performances of Western European countries. According to *Beckerman*, both the investment and growth are affected by demand. Furthermore, one of the most important components of demand is export. This is the way how export and economic growth are connected to each other. As for Beckerman, "a high level of demand and investment has positive effects on growth by creating more and more export demand and intensifying competitiveness."[163] The common point of these two models is the "relative competitiveness in prices". *Kaldor* also supported the hypothesis, namely that "exports are principally concentrated in sectors with a high productivity potential". Of course, it could be controvertible that the export market was really an essential factor for such small industries like British industries were; however, what is certain that in spite of the criticism of British trade and payments performance, it composed *surplus* for the next centuries. During the two world wars the aggregate loss of foreign assets was 43%, from the First World War it was 15% and from the Second World War it was 28%. In spite of the data the *balance of payments remains excessively powerful*. Furthermore, the export industries had a really important role in the security of balance of payments surplus in the future.[164]

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[162] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 226.

[163] Kilavuz, Emine; Altay Topcu, Betül. 2012/2. "Export and economic growth in the case of the manufacturing industry: Panel data analysis of developing countries". *International Journal of Economics and Financial Issues*, Vol. 2., p. 203. (ISSN: 2146-4138)

[164] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective*. Cambridge University Press, p. 232-233.

7.8. The "golden age of capitalism"

Why is the scale of *economic growth* a significant term from an economic point of view? According to *Roderick Floud and Paul Johnson*, it is important because *"it provides an indicator of the property and well-being of a nation".*[165] In addition, it could be said that economic growth is also a key factor of the successful economic perfomance and it could be used as a key judgement instrument on economic policy as well.[166] According to the authors, the fastest period of sustained growth in the UK was the so called *"golden age of capitalism"* from the II. World War till the 1970s.[167]

According to my *first assumption*, in spite of the fastest period of sustained growth, during the 1970s, the UK growth rate has been constantly lower than in other major capitalist countries. Regarding the balance of payments, my *second assumption* would be that in the UK the EU membeship has always played an important role in the British international trade relations. Looking at the inflation rates in the UK, my *third assumption* would be that though these values were high during the 1970s but the rate of inflation on the whole was not so drastic compared to the other European countries because of its favourable international environment. Finally, according to my *fourth assumption*, the increasing unemployment rates in the 1970s was not only characteristic in the UK but in other European countries as well, the difference is that UK has faced with this serious problem earlier.

7.8.1. GDP growth in the UK (1949-2000)

The following graph (see figure 7.) gives information about the scale of *GDP growth in the UK* between the period of *1949 and 2000*. It could be clearly seen that during the first period, between 1949 and 1973, an average of 3% rise was the typical rate accompanied by *mild cycles*. The second period started with the collapse of the Bretton Woods system in 1973 and favoured the spread of free market policies and economies till the 2000s, typically accompanied by a GDP growth rate of 2.3% and *irregular cycles*. Since 1973, there were several internal and external shocks and long line of recessions, such as the first oil crisis in 1973 and the second oil crisis in 1979, which were the main triggers of the *exchange rate problems* in the economy. As a result, a lower GDP growth was noticeable which brought along high unemployment rates

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[165] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 29.
[166] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 205.
[167] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III.– Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 30-31.

and production decline as well. The only exception area were the *output rates* of workers because these data showed a growing tendency as a result of newly used technologies and more available capital to work with.[168]

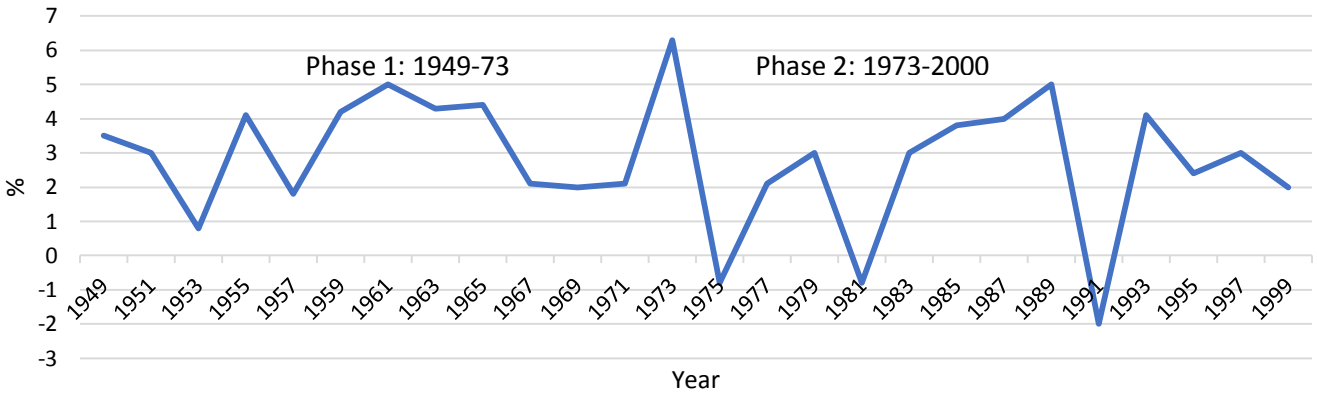

Figure 7. UK G.D.P. growth, 1949-2000 (annual % change).
Graph from Roderick Floud and Paul Johnson, The Cambridge Eonomic History of Modern Britain - Structural Change and Growth, 1939-2000, (Cambridge University Press, 2004), p. 31.

7.8.2. The balance of payments in the UK (1949-2000)

The next graph (see figure 8.) shows the *balance of payments*' values between *1949 and 2000.* It could be said that a stable economic system and a low levels of variability were the main characteristics of the examined period till 1973 in the UK. However, after the first oil crisis, from 1973 till 2000, *the variability rates started to increase*, but it is also important to note that *from the 1990s it has fallen back* to the level of the 1950s.[169] Regarding the rate of balance of payments in the UK, the British economy was "the most *internationally integrated* of all the major countries". The EU accession in 1973 was a determining step considering the later events and trade relations with the *western European countries*. By the end of the twentieth century Britain was doing more than *half its trade* with these countries. Already in the 1940s, the balance of payments was an outstanding *challenge* for the British economy, and in order to

[168] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 30-32.
[169] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III.– Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 32-34.

handle this challenge appropriately some measures had to be implemented, such as internationalisation movements, growth maximizing and higher employment rates.[170]

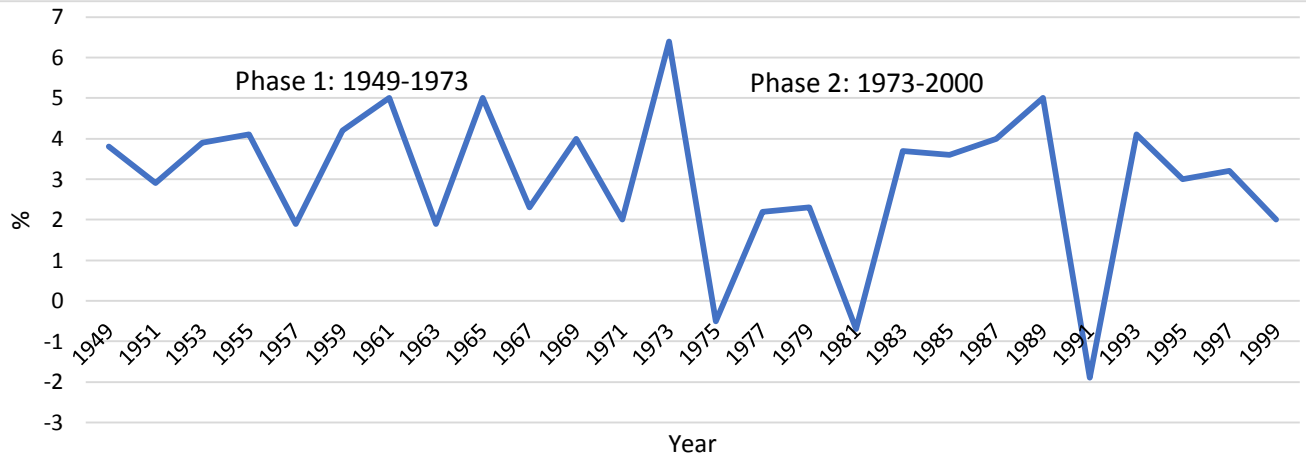

Figure 8. Growth of the balance of payments in the UK, 1949-2000.
Graph from Roderick Floud and Paul Johnson, The Cambridge Economic History of Modern Britain - Structural Change and Growth, 1939-2000, (Cambridge University Press, 2004), p. 33.

7.8.3. Inflation rates in the UK in the 1970s

From the end of the II. World War to the mid-1970s, in the field of British economy the role of the state has become increasingly important and it manifested itself in the form of *state ownership.* It is important to mention that the economic system was rather a centralised system during the 1950s; however, it converted to a more decentralised system from the early 1960s. In addition, the most characteristic economic features of this period were *the weak industrial relations*, *declining tendency in competitiveness* and *persuasive agency problems*. In 1979, through the period of the so called *Thatcherism*, the focus of the economy moved into the field of *inflation*. In order to reduce the high inflation rates the idea was that the role of the state had to be reduced and the state had to *pass the leadership role to the markets.* As a result of this measure, the *supply side of the economy* has improved a lot. Moreover, privatisation activities, deregulation movements, reform of industrial relations, rollback of trade union powers and restraint on public expenditures became into the key elements of this period.[171] Great Britain

[170] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 191-192.
[171] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 44-45.

was a country with average inflation rates compared to the European standards because of its *"favourable international environment"*.[172]

In general it could be said that the growth rate of the economy declined to 2/3 of the values in the 1950s and 1960s. However, the interesting part is that despite the decreasing tendency many economists have insisted to the fact that this *post war period* (after 1973) was all in all a *successful* one because "the relative decline halted and the scope for catch-up growth was much more limited than in earlier periods". The *pro-market policies* of the 1970s played a major role in the performance improvement of the British economy.[173]

7.8.4. Employment rates in the UK in the 1970s

As for *Roderick Floud and Paul Johnson*, the *full employment rates* were very low rates in the 1950s and 1960s in the UK. However, in a comparative context it is really important to enhance that the western European countries all had experienced *workforce flows* from the countryside to the city till the early 1970s. From that point, they had also difficulty in the field of *wage inflation* which problem reached the country of Great Britain earlier than the neighbours.[174] Britain always had a special place among the major European economies because of its *post-war policy.* This policy included an *open attitude* and *domestic political measures* in order to ensure a stable economic system and a high degree of safety of the society.[175]

7.8.5. The importance of the North Sea oil production

Relying on the words of the authors, the most important effects of the *first oil shock* were the sudden increase in unemployment rates, constantly growing inflation rates and the neglected fiscal policy. Alternatively, the *North Sea oil production* proved to be the most effective solution in those days but this measure required that oil prices had to stay as high as the OPEC cartel had raised them. Regarding this alternative solution it could be said that it had a huge impact also on the *balance of payments* because of the expense of imported construction materials for North Sea oil facilities. In the late 1970s, despite the worrying situation, the *British*

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[172] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 200.
[173] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 55-56.
[174] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 201-205.
[175] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 201-205.

capital market became again a really attractive place for OPEC countries to deposit their excess profits because *the removal of restraints on foreigners deposits, the increasing value of the pound and the rising official reserves.*[176]

7.8.6. The British economic relations with Europe (1960-1999)

Roderick Floud and Paul Johnson give details in their book about the *British economic relations with Europe* between 1960 and 1999. The following three figures provide information about the growth rates, inflation and unemployment rates of UK in an international context like in Germany, France and Italy from 1960 to 2000. According to the growth comparison (see figure 9.), it could be said that until 1973 there were no significant growth changes like it was in Germany in 1967; however, in 1973 the economic growth rate of Britain declined from 8% to -2%, in 1979 from 3% to -2% and in 1987 from around 6% to -1%. In all three cases, every falls were followed by significant increases. Among the four countries compared to Britain, Germany shows more extreme values, especially in 1990.

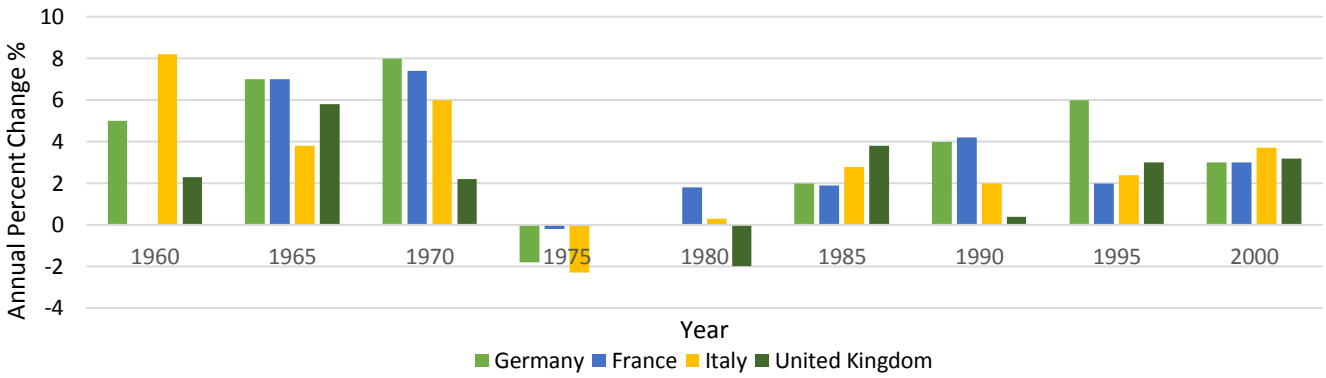

Figure 9. Growth comparison: Germany, France, Italy, UK, 1960-2000.
Graph from Roderick Floud and Paul Johnson, The Cambridge Economic History of Modern Britain, Structural Change and Growth, 1939-2000, (Cambridge University Press, 2004), p. 293.

Regarding the inflation data (see figure 10.), Italy and the UK were the two dominant territories but Britain with its peak of 27% in 1976 was the most spectacular one.

[176] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III.– Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 285-288.

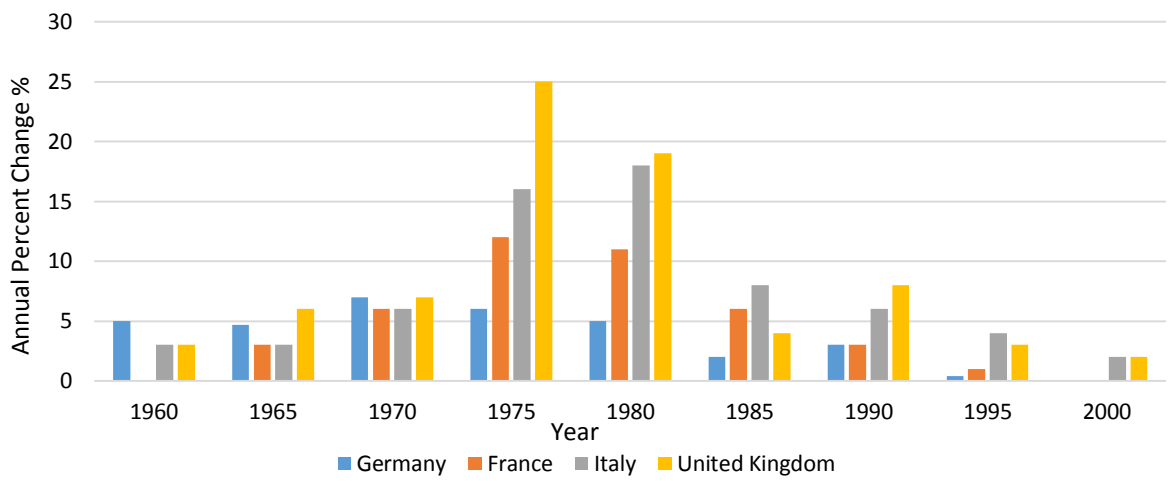

Figure 10. Inflation comparison: Germany, France, Italy, UK, 1960-2000.
Graph from Roderick Floud and Paul Johnson, The Cambridge Economic History of Modern Britain, Structural Change and Growth, 1939-2000, (Cambridge University Press, 2004), p. 293.

Last but not least, regarding the unemployment rates (see figure 11.) the data of Germany and the UK were the most fluctuant, namely in the UK between 1980 and 1985 increased by around 8%, from 4% to 12%, then there was a huge decline till 6%, a sudden rise again to 10% and a renewed downturn till 7%. It is clear that *the first oil shock in 1973 hit Britain harder* than any other large countries in Europe. As it was previously mentioned, the unemployment rates doubled, the growth rates of GDP added negative values, and the inflation rates also increased, moreover inflation values peaked at a record 27% in 1976. It is important to mention that there were other bothering factors, such as other *external shocks* in Britain and in Europe as well. What it is important to highlight, that the *responses were different* from both sides, the results were sometimes in Europe's favour, sometimes in Britain's favour. Great Britain joined to the *European Economic Community (EEC) in 1973* and from this point its *international trade relations have risen overall* and reached a similar level like it was in France. This step played also an important role in that process which resulted in the development of *independent monetary policy* by the end of the 1990s. *Britain and Europe* stood in a *strong interaction* with each other, the impact of Europe on Britain's economy since the 1940s increased a lot. At the same time, Britain also extended its influence on Europe with its alternative economic strategies in response to economic shocks. It could be said that by the end of the 20th century it was a

huge mystery if its monetary policy together with Europe or separate from Europe was more effective.[177]

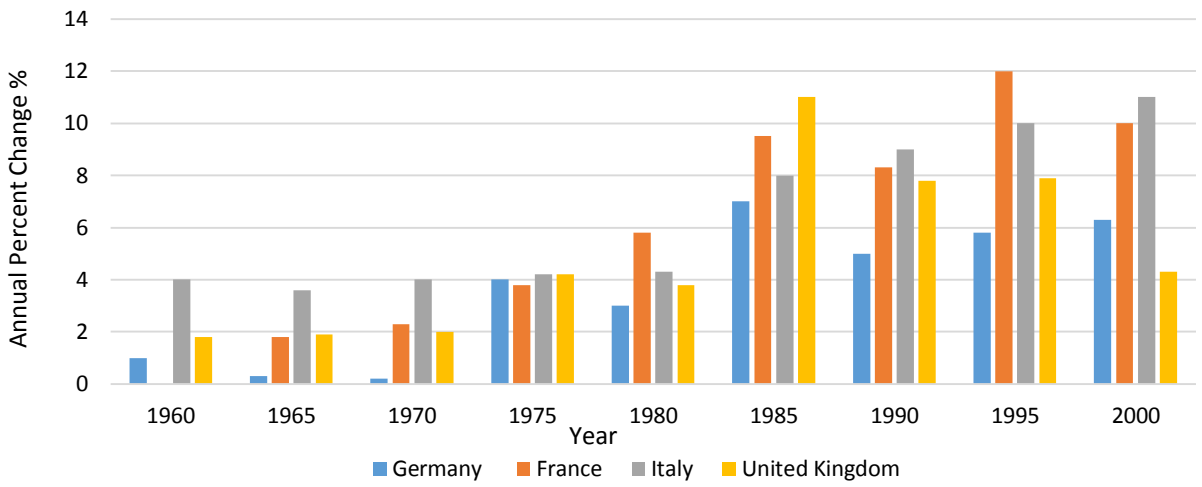

Figure 11. Unemployment comparison: Germany, France, Italy, UK, 1960-2000.
Graph from Roderick Floud and Paul Johnson, The Cambridge Economic History of Modern Britain, Structural Change and Growth, 1939-2000, (Cambridge University Press,2004), p. 294.

The period of the so called *"Golden Age of European economic growth"* took place between 1950 and 1973. During these years the western European countries tried to catch up with the economic results of the United States and reduce the *"productivity gap"* which arosed in the 1950s. How could it be possible that this period was a *relative economic decline* and an *economic growth* at the same time? Regarding this question *Roderick Floud, Jane Humphries and Paul Johnson* summarized as follows:

"[d]uring these years Britain experienced its fastest-ever economic growth but at the same time relative economic decline proceeded at a rapid rate vis-á-vis its European peer group; by the end of the period Britain had been overtaken by seven other countries in terms of real GDP per person and by nine others in terms of labour productivity. UK growth was slower by at least 0.7 percentage points per year compared with any other country including those who started the period with similar or higher income levels. The proximate reasons for relatively slow labour productivity growth were weak capital per worker and TFP growth compared with more successful economies like West Germany."[178]

[177] Floud, Roderick; Johnson, Paul. 2004. *The Cambridge Economic History of Modern Britain, Volume III. – Structural Change and Growth, 1939-2000.* Cambridge University Press, p. 292-295.
[178] Floud, Roderick; Humphries, Jane; Johnson, Paul. 2014. *The Cambridge Economic History of Modern Britain, Volume II. – 1870 to the Present.* Cambridge University Press, p. 45-49.

In addition, three more points should be mentioned in order to highlight the relevance of the UK's growth performance during these years. First, Britain has experienced its *fastest economic growth*; however, the rate of growth was *slower* than in other rich countries. In time, *London* became a *major player in the field of international capital market* because of the more and more increasing level of globalisation and global connections. Second, the growth performance was affected by *policies, institutions and history* as well. Finally, *the role of competition* should be also mentioned among these points. In the field of management, the primary task was the increasing level of outcome production in order to gain more spectacular results when the competition was higher and higher in the product markets.[179]

7.8.7. Why the rate of growth has always been so slow in Great Britain?

It can be said that one of the most outstanding feature of British economic growth during the past three centuries has been its *"extreme slowness"*. This was the most important reason why the Britain's had economic and social difficulties at that time. According to C. H. Lee, the lower and slower economic performance and the relatively low average income rates squarely resulted in lower standard of living in the British society. However, it is also significant to emphasize that the data of living standards and unemployment rates were maybe lower by the 1970s, but the main point is that *these values raised lower than in the 1980s.* He adds that the only remaining question is the following: *"Why the rate of growth has always been so slow, performance so mediocre, and why, even in the context of increasing and manifest relative poverty, the economy seems so unresponsive to change?"*.[180] As it was already mentioned several times before, the *manufacturing sector* has a central role in the measure of economic growth, mainly its structure and performance which are particularly playing a crucial role. In most cases economic historians expounded British economic advancement "in terms of *industrialization*". Most of the historians agreed the fact that the British developing tendency arosed from the *"weak contribution to growth"*, and not from the freshness of industrialization. As for C. H. Lee's words, the "modest contribution to aggregate growth composes a relevant part of the explanation for the slower economic growth rates". The starting point of this so called "weak contribution" was the *"unusual structure"* of the manufacturing sector.[181]

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[179] Floud, Roderick; Humphries, Jane; Johnson, Paul. 2014. *The Cambridge Economic History of Modern Britain, Volume II. – 1870 to the Present.* Cambridge University Press, p. 55.
[180] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 271.
[181] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective.* Cambridge University Press, p. 272-273.

Regarding the authors of the book with the title of *The British Economy since 1945* between 1950 and 1973 a particularly high *total-factor productivity* (TFP) growth can be examined in the British economy which resulted in a much higher investment and capital stock growth in that period. However, this growth has started to slow since the first oil crisis in 1973, therefore this change clearly contributed to the fact that *the UK's shortfall has been much less after the crisis* than in other concerned countries. The authors also highlighted the *major arguments* regarding the slower economic growth in the UK after 1973, which are said to be the followings: poor productivity growth, supply side of the economy and the transformed post-war settlement including increasing trade unions.[182]

C. H. Lee highlighted also that income and wealth were not divided in all societies so that while the majority of citizens had an income below the average, implicitly a small minority had an income above it. This was the general trend in Great Britain throughout the past three centuries. The small part of the society which had an income above the average, enjoyed the wealth, but not only enjoyed it, tried to sustain it from sources other than British industry. It can be said that the most unique feature of the British economic progression that the *financial system* has always had its own place in the economic life of Great Britain, it was never so closely connected to the manufacturing sector, therefore it became expansive enough to make a significant contribution to the improvement of national income rates. In the territory of financial system , Britain has been achieved an international success.

It can be said that between finance and industry there has always been and still remains differentiation referring to their field of activities and interests, but it is not at all an entire divison. Between rich and poor regions in the society of Great Britian, many divergences can be seen as well. The difference mainly arised from different economic activities, income, and unemployment rates. The continuously variable structure of the British economy has produced a society which is simply hardly able to handle this steady change. What is certain, that these changes are necessary in order to achieve a "faster economic growth", therefore the society needs to be more flexible and susceptible for newer and newer opportunities.[183]

It is important to note, that in Great Britain the *state ownership* was really prevalent, mainly in the territory of heavy industry. The loss of those industries which were high-energy industries

[182] Crafts, N.F.R.; Woodward, N.W.C.; Duckham, B.F. 1991. *The British Economy since 1945.* Clarendon Press, Oxford, p. 261-279.
[183] Lee, C. H. 1986. *The British economy since 1700: A macroeconomic perspective*. Cambridge University Press, p. 276.

was financed from the *budget of the state.* This form of funding resulted in an *extended recession period* whose effect was a *prolonged reaction* from the side of Great Britain. This slow and long-continued reaction connected to the extreme slowness of the British economic growth. This hard situation was only handled correctly by Margaret Thatcher when she came to power in 1975.

7.9. Changes in other fields after the first oil crisis in Great Britain

After the first oil crisis, compared to the "economic slowness" *in other fields striking and powerful series of changes* can be examined. What kind of changes were these exactly? The different changes besides the economic ones, were mainly *political changes, sociological changes, art changes, technological changes, and scientific changes.* Referring to the sociological situation at that time, a "general bad mood" marked the public life of the British society. In this context, it can be said about the art changes after 1973, that the British artists have been identified with the "general feeling" of the society, therefore it was not suprising at all that their work started to make a move in a "dark" direction. Besides the unfavourable impacts there were of course some positive outcomes too. One of them was that in the field of political changes, wage and price controls came to an end when Margaret Thatcher took power in 1975. Furthermore, other important changes can be seen in the results of technological improvements and scientific improvements (jet engine; hovercraft; the first digital computer; the structure of DNA; theories in cosmology; quantum gravity and black holes; invention of World Wide Web; aerospace industry; Airbus project; medicine developing; the leading centre of automotive design and production).

8) Conclusion

The topic of the oil crisis in 1973 was already the central issue of several studies before; however, to the best of my knowledge, there is no paper making an attempt to analyze the events of the first oil crisis, and its economic effects, first in general, then with narrowing down the field of research to only one country, in the territory of Great Britain. According to the thesis it is divided into two main parts and these two parts are structured by the same logic because both of them investigate the situation before 1973, after 1973, and during the time of the first oil crisis. The thesis all along has a clear focus on *the role of the first oil crisis as an economic turning point.* For a better understanding it is important to clarify the term of *"turning point"* which could be defined regarding the *Collins English Dictionary* as follows: "[a] decisive moment, when the course of events is changed or a point at which there is a change in direction or motion."[184].

Several conclusions can be drawn at the end of the first part of the thesis *(2.-5. chapter).* The first half of the paper examined how the the oil price shocks influenced the world economy and most importantly tried to find an answer for the first research question: *"Was the oil crisis of 1973 an important turning point in the world economy?".* Summing up the above written sections it can be clearly seen that the oil shocks had continual effect on the macroeconomy of an oil importing country because most of the time an oil price shock was followed by a recession period and as a result of a recession period the degree of growth slowed down and finally this fallback led to increasing price levels and a growing inflationary rate. However, it cannot be explicity said that all of the oil price shocks lead to a recession, *Nouriel Roubini and Brad Setser* bring an example of the oil price spike in 2003 in their writing.[185] Regarding increasing price levels some words about the world oil price changes should be also noted. It has already been seen during the analysis in section 2.4. that between *1949 and 1973* the value of the oil price was quite stable and *after the first oil crisis till the early 1980s* it showed variable values; the extent of fluctuations showed outstanding results only in the year of *1974 and 1979*.

Hence, answering the question, was the oil crisis of 1973 an important turning point in the world economy, based on the analysis which made up in the first part of the thesis, *the answer is absolutely yes.* However, considering once more the fateful facts of the 1970s, like *Ching Yin*

[184] Collins English Dictionary.2016. *"Definitions – turning point".* Available online at <http://www.collinsdictionary.com/dictionary/english/turning-point>. (9 May 2016; 11: 15)
[185] Roubini, Nouriel; Setser, Brad. 2004. *The effects of the recent oil shock on the U.S. and global economy.* Draft, p. 2.

Lin Olivia did in her international history analysis, the question could come up: *to what extent was the oil crisis of 1973 an important turning point in the world economy?*.[186] According to her findings, the oil crisis of 1973 was an achievement of the Middle East; a political and an economical one at the same time. The events of the oil crisis allowed the OPEC nations to increase the oil prices, therefore the opportunity was guaranteed for them to take over control of the world economy. This effected traumatic rise in costs (in the fields of manufacturing, transportation, food production), even the USA's economic hegemony was partly weakened, but its dominance still existed furthermore because its economic power was indisputable. After their formation, the *G-7 qualified the oil crisis of 1973 as an important turning point in global economic history.* This association was grounded by developed industrialized states and the main aim of this organisation was to discuss global economic, financial, and political issues. The confirmation of the G-7 about the importance of the oil crisis supports the first assumption; however, it is also necessary to note that this period was still not the most determining period for the world's economy. Due to this fact, a minor extension to the statement is needed, which is as follows: *the oil crisis in 1973 was an important turning point for the world economy but only to a small extent.*[187]

Based on the presented information about the first oil crisis, and the detailed economic history of Great Britain from the 1950s until the 1980s, the second part of the paper *(6.-7. chapter)* examined how the oil price shocks influenced the British economy. However, it is important to highlight that the most important aim of this part was providing an answer for the second research question: "*Was the 1973 oil crisis an important turning point for Great Britain? Was it really such a bad current economic downturn for the country?*".

Summing up the qualitative and quantitative sources used in the analysis it could be said that the oil shocks had continual effect on the economic life of Great Britain as well; but the measure of this effect was not really economically significant. In the second part of the thesis, *section 7.1.* proved the fact that the entry of Great Britain into the European Economic Community in

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[186] Marked by Teachers – part of the student room group. Chin Ying Lin Olivia. 07/02/2010. *„To what extent can the oil crisis of 1973-4 be regarded as a turning point in the development of the international economy?".* Available online at <http://www.markedbyteachers.com/as-and-a-level/history/to-what-extent-is-the-oil-crisis-of-1973-a-turning-point-in-postwar-economic-development.html>
(14 Dec. 2015; 12: 41)

[187] Marked by Teachers – part of the student room group. Chin Ying Lin Olivia. 07/02/2010. *„To what extent can the oil crisis of 1973-4 be regarded as a turning point in the development of the international economy?".* Available online at <http://www.markedbyteachers.com/as-and-a-level/history/to-what-extent-is-the-oil-crisis-of-1973-a-turning-point-in-postwar-economic-development.html>
(14 Dec. 2015; 14: 59)

1973 was a rewarding decision from the side of the British Government because the result of this step were the increasing trade and income rates. The sudden discovered oil fields at the North Sea was a determining factor in the economic life of Great Britain during the 1970s as well.

Daniel Yergin in his book called *The prize – The epic quest for oil, money and power* is dealing with the history of energy consumption. It is clear that the demand for oil between 1949 and 1972 showed a continuously growing tendency. As he writes in his book: *"Bigger is better – that was the dominant theme in the oil industry."*[188] He also gives details about the new supplies on the oil market outside OPEC through the 1970s. The three new increasingly developing regions were the followings: *Alaska, Mexico and the North Sea.* Regarding the website of *the British Petrol (*BP) in the region of the North Sea, from the middle of the 1970s everything has changed and the sea was not only important because of the herring anymore, but also because of the *oil field which was discovered between Norway and Britain.* Altogether, it is important to highlight the fact that North Sea oil production was *"one of the greatest investment projects in the world"*.[189] The *British Petrol* has always been an important role in Aberdeen from the beginning of the North Sea oil and gas discoveries. The exploration of the so called *"Forties oilfield"* was a really huge step forward in the history of the North Sea oil business because from this point the territory of the North Sea has been given as a *"significant oil and gas province"*.[190]

Referring to the *section 7.2.* it can be seen that the rates of public expenditure, including National Health Service, education and welfare benefits, increased from the 1960s until the end of 1970s, only in the field of military defence can be seen a little decrease by 1%. The *section 7.3.* is dealing with the period between 1935 and 1975, and the most important characteristics of this time, the high inflation rates and even eight times higher price increases. The key to the solution was a tighter monetary policy whose most significant action was the control of wages in the private sector. It can be seen from the data that after the 1960s the British government did not increase public expenditure and taxation as they did earlier. As the *section 7.5.* details, with the evolution of the market of Eurodollars more and more international

[188] Yergin, Daniel. 1991. *The Prize – The epic quest for oil, money, and power.* Simon & Schuster Building Rockefeller Center, p. 541-542.
[189] Yergin, Daniel. 1991. *The Prize – The epic quest for oil, money, and power.* Simon & Schuster Building Rockefeller Center, p. 669.
[190] BP – United Kingdom. 2016. *North Sea.* Available online at <http://www.bp.com/en_gb/united-kingdom/where-we-operate/north-sea.html> (10 Mar. 2016; 12: 51)

opportunities became available for the financial institutions. Moreover, on the market of the Eurodollars an increasing tendency can be examined sort by the growing tendency in oil revenues in the 1970s. As the *section 7.6.* describes, it can be clearly seen that until the 1970s the unemployment rates were really high; however, after that a net increase occured in the field of employment rates which meant a 5.4 million job growth. The *section 7.7.* shows increasing export rates after 1973 besides slowing down the growth of GDP, and impact of sales of the North Sea oil. Furthermore, the data of net services and balance of payments had improving values after the 1950s, only the net income rates from abroad were in a recession. Looking at the economic situation of Great Britain in an international context it could be said based on the findings in *section 7.8.* that all of the assumptions proved to be true. In short, despite of the fastest period of sustained growth in the UK which was the so called *"golden age of capitalism"* from the II. World War till the 1970s, he UK growth rate has been constantly lower than in other major capitalist countries. Regarding the values of *balance of payments*, the EU membeship has always played an important role in the British international trade relations. After the EU accession the *favourable international environment* was good for *the rate of inflation* because on the whole it was not so drastic compared to other European countries. Finally, the *increasing unemployment rates* in the 1970s was not only characteristic in the UK but in other European countries as well, the difference is that UK has faced with this serious problem earlier. This step played also an important role in the development of an *independent monetary policy* by the end of the 1990s.

The economic crises of the 1970s forced to rethink "the *IMF's role* in the global financial system". *Ian Vásquez* approved that the most important mission of this organization is the *prevention* of the outbreak of economic crises with the help of different aids in the framework of a *"line of credit".* The two largest users of this credit line were *Great Britain and Italy.*[191] In 1976 the British Government had to front with a *Sterling crisis*, which main result was that the value of the pound turned upside down and in this chaotic situation the government found it difficult to fulfill all of its "spending commitments". Regarding the British national dept data of *Wikipedia* the solution came from the side of the IMF in the form of a *3.9$ billion rescue package*. As a result of this support, the IMF has clarified the loan conditions in November

[191] Vásquez, Ian. CATO Institute. 28 Sept. 1999. *The International Monetary Fund: Challenges and Contradictions.* Available online at <http://www.cato.org/publications/congressional-testimony/international-monetary-fund-challenges-contradictions> (10 Mar. 2016; 15: 25)

1976, such as *"deep cuts in public expenditure"* and *"taking control of UK domestic policy"*.[192] It could be said based on *the Cabinet Papers* that the agreement was *successful* enough in order to regain the pound its own value, by this the financial situation began to be resolved as well.[193] *Tejvan Pettinger* confirmed the fact that there were many different responses to the events of the oil crisis in 1973. Focusing on Great Britain an interesting result can be examined, namely the reaction was really slow, therefore the economic impacts were also not so drastic. The new form of funding (state ownership) resulted at that time in an *extended recession* period whose effect was a *prolonged reaction* from the side of Great Britain. It is clear that this slow and long-continued reaction connected to the *extreme slowness of the British economic growth.* The other important factor was, besides the slowness of the reaction, *the policy of monetarism* of the early 1980s which was a detectable economic policy. The truth is that at first it was not so welcomed by the society; however, on a long term this policy was really effective for the British economy. This hard period was handled right during the government of *Margaret Thatcher*. Margaret Thatcher came into power as the Prime Minister of the United Kingdom from 1979 till 1990 and her most importaint aim was to destroy the socialist trade unions with the idea of *"monetarism" and "free market economics".* This new measure included tax raising and cutting down the goverment spending. The main interest rate of the government was the reduction of the inflation. Thatcher got a lot of critique regarding her policy after the unemployment reached the level of three million, and formed to a *mass unemployment*, but she kept herself to the concept of *solving the problem of inflation*. Despite of the persistent hostility, she was right, one the one hand, the inflation was reduced, but it is also true that the applied method could have been less painful.[194] However, it is also important to note that there were many other important changes in several fields. The different changes besides the economic ones, were mainly *political changes, sociological changes, art changes, technological changes, and scientific changes.* It is important to mention that they were otherwise affected, some of them showed alarming results, while the others showed promising ones after 1973. However, the big difference between the economic changes and the previously mentioned categories were: *the strength and the extent of change.*

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[192] Wikipedia. 25 Jan. 2016. *History of the British national dept.* Available online at <https://en.wikipedia.org/wiki/History_of_the_British_national_debt> (11 Mar. 2016; 14: 13)

[193] The National Archives - The Cabinet Papers 1915-1986. *Sterling devalued and the IMF loan.* Available online at <http://www.nationalarchives.gov.uk/cabinetpapers/themes/sterling-devalued-imf-loan.htm> (11 Mar. 2016; 14: 54)

[194] Pettinger, Tejvan. Economics Help – Helping to simplify economics. 30/03/2007. *"UK economy under Mrs Thatcher 1979-1984".* Available online at <http://econ.economicshelp.org/2007/03/uk-economy-under-mrs-thatcher-1979-1984.html> (29 Nov. 2015; 22: 24)

The fact of *energy conservation* should not to be missed, namely it has become a well-known issue during the period of oil crises; however, it is still today a very important factor at the time of *climate crisis*. Based on the words of *Ned Haluzan* it is important to mention the weaknesses and strengths of fossil fuel. On the one hand, the main weakness which is probably also the most dangerous one for the environment is the *"chemical makeup"*. On the other hand, the most important advantage of fossil fuel that it is *"portable energy"*. What is definitely worth considering is the fact that these sources are *non-renewable.* According to the economic predictions, the sort of fossil fuels will be presumably for 150 years enough because they are limited in supply and their replacement will be definitely needed in the future. Today, the big *dilemma* is that these sources provide a valuable service but as regards the dilemma it is also important to deal with the fact that the side effects of using them could cause lot of problems. The constantly growing factor of *"population growth"* will be resulted in a continuously "*increasing energy demand"*. Therefore, the primary goal is that the future energy needs should be later fully satisfied as well, for that very reason the role of *renewable energy sources* will be exceptional in the future. The best evidence of this is the fact that most of the oil companies, such as the *British Petroleum Company* (BP) has become one of the world's "*leading providers of solar energy"*. The renewable energy sources create their own energy, therefore they are the perfect energy sources, depending on where you are. The three most important features of these sources that they are "*non-polluting", renewable" and "efficient"*. It could be said that there are different variations in the field of renewable energy sources, such as *the solar, wind, geothermal, biomass and hydro powers.* Nowadays maybe the fossil fuels still have the leading positions in the economic life but the future will hold for sure new opportunities in the field of alternative energy sources.[195] However, the *Energy UK* enounced the fact that this field requires much more *financial support* in order to develop and install the necessary new technologies, such as *"onshore and offshore wind farms", "biomass power stations" or "hydropower systems"*.[196] The *Energy UK* is dealing with the area of renewable generation in detail, what is sure that *wind power* is the second largest source of renewable energy after biomass in the UK because of the favourable "climatic conditions" and "high average wind speeds". The source of *biomass* can be used for thermal power, heating, electricity but it can be also refined to "gain methane and injected into the gas grid". *Solar power* recently enjoyed a great success in the

[195] Haluzan, Ned. Renewables Talk – Talking and discussing renewable energy. 6 Oct. 2012. *Why is better to use renewable energy instead of oil?* Available online at <http://renewablestalk.blogspot.co.at/2012/10/why-is-better-to-use-renewable-energy.html> (11 Mar. 2016; 20: 19)

[196] Energy UK. 2015. *Renewable generation.* Available online at <http://www.energy-uk.org.uk/energy-industry/renewable-generation.html> (12 Mar. 2016; 18: 39)

British society and economy; however, not just in Great Britain but all over the world. Solar powers are really efficient energy sources because they convert the rays of the sun, and that is the way how they create energy. Regarding *marine, wave and hydroelectricity* the island location of the UK provides the best possible opportunities for electricity generation from wave power and tidal power. Summarizing the opportunities, it could be said that Great Britain is really open-minded for these new energy sources and tries to use them as far as possible to meet more of its energy needs.[197] Soon the field of energy sector was already specified, the fact of *energy intensity* also has to be mentioned because it plays a truly important role regarding the research focus of the thesis. Based on the analysis of the *International Energy Agency* it could be stated that the United Kingdom has always had *lower energy intensity* results, because in the UK's economic structure the sector of *industry has always got a much smaller share* than in most IEA countries. Therefore it follows that the question of energy intensity in the investigated area has *no special relevancy*.[198]

Concluding it all, answering for the second research question *Tejvan Pettinger*'s words can be used that "[t]he 1970s was a traumatic economic decade of stagflation, a three day week and the return of unemployment in Great Britain. Yet, despite some headline grabbing crisis - it was also a decade of rising living standards, the growth of credit and rising property prices."[199] After a detailed analysis about the British economic life from the 1950s until the 1980s it can be said as a final conclusion that *the oil crisis of 1973 was not such a bad economic downturn for the country insomuch as it was a far more decisive period in the global economy.*

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[197] Energy UK. 2015. *Renewable generation.* Available online at <http://www.energy-uk.org.uk/energy-industry/renewable-generation.html> (12 Mar. 2016; 18: 56)

[198] International Energy Agency. 2012. "Energy Policies of IEA countries-The United Kingdom". *International Energy Agency Review*, p. 22-23.

[199] Pettinger, Tejvan. Economics Help – Helping to simplify economics. 25/04/2012. *"The Economy of the 1970s".* Available online at <http://econ.economicshelp.org/2010/02/economy-of-1970s.html> (14 Dec. 2015; 23: 26)

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10) Appendix

10. 1. Abstract in English

This master thesis seeks to convince the reader that the time of the oil crises, especially the oil crisis of 1973, was a beloved field of research for many economic historians; not to say, a lot of people would not even think that this topic is still a truly exciting research area. This paper has been inspired by books and papers written in the field of global history and international relations which try to help understand the function of energy industry and the mistery of energy problems. One of the most interesting questions of the economic history is the role of oil crises in the global economy. However, after a general overview, the second part of the thesis intends to focus on only one specific area: Great Britain. Therefore, the paper is divided into two main parts: firstly, the events of the oil crisis of 1973, in general, examined through qualitative analysis (literature analysis) and quantitative analysis (economic analysis). In the second part, the research methods are the same, only the main focus of the paper narrowed down to the territory of Great Britain. Both of the parts are structured to examine and discuss the situation before 1973, at the time of the first oil crisis, and after 1973. These results lead to the final conclusion based on the central issue of the topic: the role of the oil crisis in 1973 as a turning point in the world economy and in the economy of the big empire, Great Britain.

10.2. Abstract in German

Diese Masterarbeit versucht den Leser darüber zu überzeugen, dass die Zeit der Ölkrisen, besonders die Ölkrise von 1973, für viele Wirtschaftshistoriker ein beliebtes Forschungsgebiet war; viele würden es nicht einmal denken, dass dieses Thema immer noch ein richtig spannendes Forschungsgebiet ist. Sie wirft die Frage der Freigabe des Ölpreises auf, worüber festgestellt werden kann, dass es das zentrale Thema der vergangenen Jahre war. Diese Arbeit wurde durch Bücher und Schriften motiviert, die im Bereich der Weltgeschichte und internationaler Beziehungen geschrieben wurden, und uns dabei helfen, den Energiesektor und die Geheimnisse der Energieprobleme zu verstehen. Eine der interessantesten Fragen der Wirtschaftsgeschichte ist die Rolle der Ölkrisen in der Wirtschaft der Welt. Nach einer allgemeinen Übersicht will sich der zweite Teil der Diplomarbeit nur auf eine Großmacht konzentrieren: auf Großbritannien. Man kann sagen, dass dieses beobachtete Gebiet die Frage der Ölkrise individualisiert und noch interessanter gemacht hat. Deswegen hat diese Arbeit zwei Hauptteile: zuerst wurden die Ereignisse der Ölkrise von 1973, generell durch qualitative Analyse (Literaturanalyse) und quantitative Analyse (Wirtschaftsanalyse) untersucht. Im zweiten Teil sind die Forschungsmethoden dieselben: nur der Fokus der Arbeit verengt sich auf einen speziellen Bereich, auf das Gebiet von Großbritannien. Beide Teile sind so strukturiert, dass die Situation vor der ersten Ölkrise, der vor 1973, dann die nach 1973 untersucht und diskutiert werden. Diese Ergebnisse führen zu der Schlussfolgerung, deren Grundlage das Hauptthema ist: die Rolle der Ölkrise von 1973 als Wendepunkt in der Weltwirtschaft und der Wirtschaft der Großmacht Großbritannien.