

How far do you agree that Keynesianism was the key factor in Britain's economic problems in the 1970s?

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Terminale 2021-2022

In the 1970s, the collapse of the Bretton Woods System and the oil crisis of 1973 created an economic crisis which beset the entire western world. In so doing, it reignited the 'cyclical' ideological debate between Collectivists and Economic Liberals. Through the election of Margaret Thatcher in the UK and Ronald Reagan in the United States at the end of the decade, a radical shift away from the social democratic model of governance ensued. But to what extent was Keynesianism the key factor in Britain's economic problems in the 1970s?

I) John Maynard Keynes (DEMAND):

Believed govs have it in their power to solve some of the greatest ills of capitalism. Refused to believe in communism or the utter wisdom of the unfettered free market. Instead, he occupied a middle course, believing that govs could, with a judicious injection and wise regulation, smooth out the peaks and troughs to which all economies seem fatefully prone.

Real problem of unemployment to him lay in lack of DEMAND.

For Keynes, role of government was to invest in public works (e.g.: building of roads) which would create employment and therefore give people money to spend stimulating economic growth. Full employment necessity.

(Friedrich Hayek (SUPPLY): influenced how people in capitalist societies viewed liberty. Did not mean democracy or commitment to a set of liberal ideals, rather, Hayek believed that liberty was "a policy which deliberately adopts competition, markets and prices as its ordering principles". To him, it was markets that guaranteed individual liberty, by contrast, it was the interference of states in markets which disrupted the operation of liberty and started society down the "road to serfdom".)

II) Britain indeed faced many internal struggles due to post-war consensus

When Edward Heath became PM in 1970, he had a clear programme of policies of modernization of Britain. BUT Heath still believed in "One Nation Toryism" and the post-war consensus –the Selsdon Park Programme was not intended to be an all-out rejection of post-war consensus politics; introduced better law and order, reforms to trade unions, immigration controls.

The Industrial Act was for example a turning point in British politics. It was brought in 1971 by Edward Heath, and was similar to failed policy of the previous Labour gov. It aimed to weaken unions by enforcing a secret ballot and "cooling off period". The TUC refused to accept it, and Heath had to call a "state of emergency" five times due to all the strikes between 1970-1974.

Essentially, Heath failed to establish free market favouring policies as early as 1970, which led to Margaret Thatcher's rejection of Keynesian economics with her new government in 1979.

- Also, Keynesianism through Britain's issues of nationalisation:

Labour and conservatives committed to Keynesian ideas of a mixed economy, but little modernization of British Industry took place, forcing governments to subsidise "lame duck" industries.

For example, high levels of inflation led to the "top-go" economic policies of the 1950s and the 1960s. The "Barber Boom" began with increasing inflation, but not accompanied by economic growth – unemployment soared after Athony Barber's public spending cuts which ultimately led to stagflation in the 1970s. This led to the nationalisation of Rolls Royce in 1971.

However, by 1973, investment into modernising industry seemed to work. Unemployment decreased, which means that other external factors also had a role to play with Britain's struggles.

- III) Indeed, **the oil crisis in 1973** triggered by the Yom Kippur War in the Middle East prompted the OPEC to declare an oil embargo, meaning that exports suddenly stopped, and price of oil rocketed to x4 usual level.
- IV) **Trade unionism** was also an important factor to consider. It was in the context of the oil crisis that the National Union of Miners (or NUM) went on strike in 1974 for a 35% pay increase. As a result, Heath was forced to put Britain on a 3-day working week and announce a general election. "Who governs Britain?" was asked by Heath, a question that implied that real power had shifted away from parliament.

Also due to trade union's strikes that James Callaghan's gov essentially reached its downfall, as his tried to limit unions to a 5% pay rise led to widespread winter of discontent, such as by lorry drivers or nurses.