

Economic Difficulties

Labour settled the previous Miners strike with a 29% pay rise, but this worsened the issue of wages rising faster than growth. Inflation reached 30% by '75, which made the Trade Unions demand more pay rises. This was worsened also by a world recession hitting British exports, with little economic growth & unemployment rising from 550k in '74 to over 1.3m two years later. In an attempt to control inflation, the Chancellor imposed economic restrictions to try and recover the economy:

- The 1975 budget increased taxes & reduced government spending, to try and take money out of the economy to reduce prices.
- In July 1975, the government introduced a £6 per week pay rise limit, with higher wages having a pay freeze. Trade Unions reluctantly agreed, however some left-win MPs opposed the limit.
- A year later, the government reduced the pay rise limit to £4 per week. This successfully reduced average pay increases from 26% in '75, to 15% in '76, to 10% in '77.

While this did help to ease inflation, there was no industrial recovery & growth. Exports were still expensive to produce & imports remained high, which led the balance of payments into deficit.

Winter of Discontent

The Unions didn't like Healey's policies and felt that they had abandoned their Social Contract. In response, Ford factory workers gained a 15% pay increase after a three-month strike. This was followed by a lorry worker strike in January '79, demanding a 30% pay rise - this caused oil shortages & affected deliveries. More strikes & overtime bans were added through the national Union of Public Workers, who represented the lowest-paid local authority workers & wanted a 40% pay rise. Dustmen & gravediggers were involved in the strike, which led to rubbish piling up & the dead not being buried - this was dramatic & easy for the press to criticise the government on.

During all this, Callaghan was at a summit in the West Indies. When asked about the condition of Britain, he responded: *"I don't think that other people in the world would share the view that there is mounting chaos"*. People thought that he was denying the current crisis, and was further evidence to how out of touch the government was.

IMF Loan

During '76, the Sterling fell massively in value as people lost confidence in it - this threatened to drive up the cost of British imports even more & make inflation worse. The Bank of England bought up lots of Sterling on foreign exchanges in order to inflate it's value, but they started to run out of the country's currency reserves.

In September '76, Healey decided to ask the IMF for help. They agreed to a £3900m loan, but as long as Britain cut government spending by £2b per year. This was agreed on in December. While this did create a rift with the left of the party, it did help prevent a political & economic crisis.

Vote of No Confidence

The government won the support of Plaid Cymru (*Wales*) & the SNP (*Scotland*) through promising to devolve some powers to their countries. However, a referendum in those countries failed to pass in March 1979, and devolution couldn't proceed. The nationalist MPs saw this as a failure of the government, and decided to join the Conservatives in a vote of no confidence against Callaghan. The government lost by a single vote, and an election took place - with the Conservatives winning with Thatcher.

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