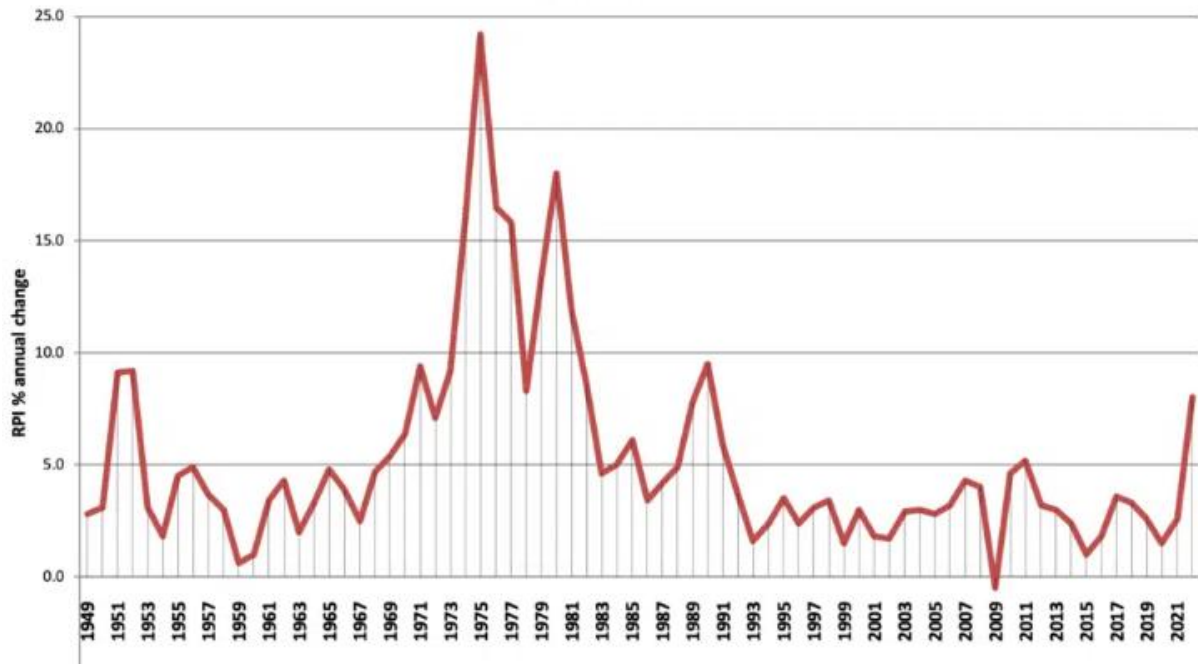


## 1970s Britain: Crisis? What crisis?

With inflation still rising and widespread strikes having taken place over the last few months it was perhaps inevitable that Britain today would invite comparison with Britain in the 1970s. Nineteen-seventies Britain has often been held up as a time of decline, deep recession and misery. For example as recently as 2017 the Sun wrote that if Labour were to win the forthcoming election, the country would be catapulted back to the 1970s “*when the UK ground to a halt with constant strikes, rubbish and empty houses.....in 1976 Britain was the sick man of Europe, three years after we joined the EU.*”<sup>1</sup>



During the 1970s inflation came to be seen the biggest problem facing Britain. The chart shows the general movement of inflation from 1949 onwards.<sup>2</sup> During the 1950s and 60s inflation had consistently been around 2 to 3% but after the 1967 devaluation of the pound from \$2.80 to \$2.40, prices began to increase as imports became more expensive. Inflation reached 6.4% by 1970 and 9.4% by 1971.<sup>3</sup> With food prices and petrol prices rising there was increasing anxiety about the cost of living, especially among trade unions. In November 1972 the National Union of Miners started an overtime ban. Worried that the nation's coal stocks wouldn't last the winter, the Prime Minister Ted Heath announced a 3-day week to start on 1 January 1973. It lasted until 7 March 1974.<sup>4</sup>

In the Autumn of 1973 the price of oil quadrupled because of the outbreak of war between the Arab states and Israel. The chart shows that inflation rose to 16.1% by the end of 1974 and by August 1975 inflation was at an all-time high of 24.2%. It fell to 8.3% by 1978 but rose again to 18% by 1980.<sup>5</sup>

Despite the high inflation, “*the Achilles' heel of the country's financial position was the sterling balance problem.*”<sup>6</sup> Britain's sterling problem went back to the Second World War when Britain ran up huge debts to the countries of the Commonwealth. When the war ended these debts were four times larger than Britain's foreign exchange reserves. This meant that if all creditors had decided to cash in their sterling assets for foreign exchange, there is no way the debts could have been honoured. As a result Britain's currency was vulnerable and likely

to be sold off in the international foreign exchange markets whenever there were concerns about the balance of payments or excessive government borrowing. This is exactly what happened in 1972 after a series of weak balance of payment reports, and similarly in 1975 as government borrowing rose.<sup>7</sup> By August 1976 the pound had fallen to \$1.68. The Bank of England was warning that it could even fall below \$1.50, “*with no knowing how far it would go.*”<sup>8</sup> It was this fall that forced the government to request a loan from the International Monetary Fund (IMF). The loan was not much greater however than what had been borrowed at the time of the Suez crisis of 1956, and only half was ever taken up - the remainder being repaid before Labour left office in 1979.<sup>9</sup>

Following a number of successful negotiations with the TUC to limit wage increases between 1975 and 1977 the Labour government again attempted to limit wages this time to 5% in 1978. With inflation now running at 8.3% public sector workers faced a further fall in their real wages. It was resistance to these cuts that lay behind the Winter of Discontent of 1978-79.<sup>10</sup> It started in September 1978 with 57,000 workers at Ford plants across the country walking out. Overtime bans among oil tanker drivers and strikes in the road haulage industry followed soon after. In January 1979 over a million school caretakers, cooks, nurses, ambulance drivers and refuse collectors went on strike. The most notorious action was in Liverpool where staff in the Parks department refused to bury dead bodies. In London and other major cities rotting rubbish piled up in the streets.<sup>11</sup>

In the meantime the Prime Minister, James Callaghan had gone off to Guadeloupe for an international summit and stayed on for a short holiday. When he returned he was asked about the industrial chaos and replied, “*I don’t think people would share the view that there was mounting chaos.*” This was famously translated by the Sun as, “Crisis? What crisis?”<sup>12</sup>

In summary the evidence points to an improving economy from 1976. The recession of 1974-75 was short-lived compared to those that came later, lasting only 6 months - the recessions of 1980-81, 1990-91 and 2008-09 each lasted for 15 months.<sup>13</sup> Output was growing at 3% a year and inflation had fallen from 16.6% in 1976 to 8.3% in 1978.<sup>14</sup> Real household incomes rose by 7.1% in 1978 and by 5.78% in 1979.<sup>15</sup> “*What Britain saw in the 1970s was a ‘moral panic’ about developments, which should now, with the benefit of hindsight, appear far less earth-shattering.*”<sup>16</sup>

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## Notes

At the time of publication inflation was 10.4%, Consumer price inflation, UK: February 2023, 22 March 2023

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2023>

It was the then editor of the Sun, Larry Lamb who is credited with referring to the dramatic events of 1978/1979 as 'The Winter of Discontent'. The phrase is taken from the opening lines of Shakespeare's Richard the Third: "Now is the winter of our discontent, Made glorious summer by this Son of York."

The number of days lost through strikes in 1979 was 29 million. This compares with 27 million in 1984 and 162 million in the general strike of 1926. Between June and December 2022, 2.5 million days were lost through strikes.

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