Back to the 1970s?

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In a recent column for the *Financial Times*, 'How this crisis will take us all back to the 1970s', Robert Shrimsley speculated on what a post-Covid-19 future may look and feel like for the UK. As the title suggests, Shrimsley thinks that may be necessary to cope in a world in which there are greater restrictions on movement and, as many believe will be likely, less disposable income.

For those familiar with the 1970s, it was a decade in which, following the 1960s, when intense social change was accompanied by massive investment to modernise, as well as complete reconstruction of building and infrastructure damaged in second-world-war, optimism was punctured by a series of crises.

The first, and most significant, was caused by a threefold increase on the price of oil following the outbreak of war in the Middle East in October 1973 when, on the feast of Yom Kippur War in Israel, Arab neighbours, Egypt and Syria, launched an attack to reclaim territory lost in 1967. OPEC (Organization of the Petroleum Exporting Countries) imposed an embargo on production in retaliation for America's support of Israel.

Oil, until then, a cheap commodity and key to providing power that had allowed industry to expand and energy for homes, as well as fuel for cars and the basis for plastics, became a 'liquid gold'. Sensing that this was a moment of opportunity, The National Union of Miners, arguing that their pay had not kept pace with other industrial workers, sought, and eventually, secured a 35% increase in wages.

Incumbent Conservative Prime Minister Edward Heath was initially unwilling to acquiesce. A bitter and, at times violent, strike ensued. This required sacrifice by all citizens as, in order to conserve stocks of coal as well as oil a 'three-day week' was introduced to reduce the need for electricity for industry.

Anyone over the age of 52 will recall the regularity of power cuts that occurred which meant that activities had to be carried out by candlelight or battery-powered sources of illumination.

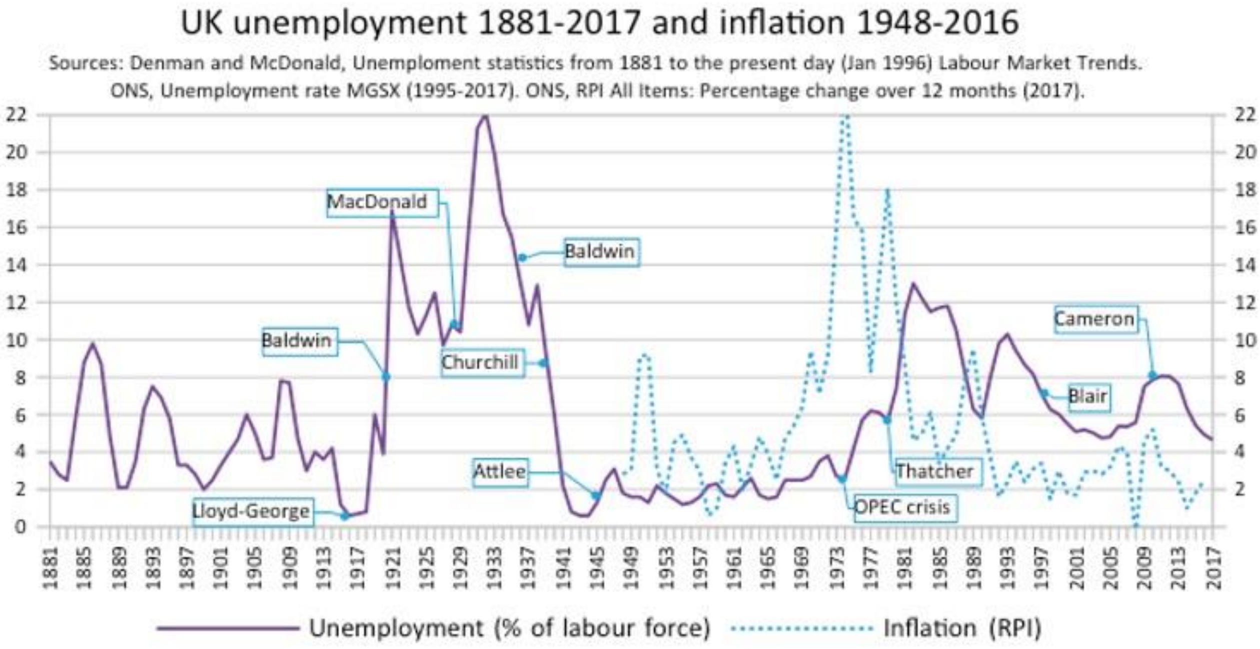
For the young, which I was, it felt strangely exhilarating.

For the old, who'd lived through the existential threat of the Nazis and, in cities, the threat of Luftwaffe bombings, not having power for lighting and other appliance was, by comparison, a trivial inconvenience.

Though there were occasional stories of house fires caused by candles, the sense was this was the way of things and, though I'm perfectly happy to be corrected by those with views to the contrary, there was a fair amount of sympathy for workers whose occupation was seen as pretty unhealthy and dangerous.

Though unemployment had started to rise in the 1970s, and was the reason for the Heath government's 'Dash for Growth' in 1972 and 1973, there were many voices in the party who regarded the largesse being demonstrated as contrary to a party committed to what future leader Margaret Thatcher would call "good housekeeping" by spending within prescribed limits; what would become known as 'monetarism'.

As the following image reproduced from McGaughey* (2018) showing unemployment 1881-2017 and inflation 1947-2016, unemployment during the 1970s, though rising from a long-term average of 4% up to the 1973 oil shock to reach 5.5%, the real scourge for citizens of the UK was inflation which had already been double digit but briefly spiked at 25% in 1975.



As miners had demonstrated, if you felt you weren't paid sufficiently, the key to success was seizing your moment and engaging in industrial action. However, and recognising that there was a danger of inflation spiralling out of control, the government introduced wage controls coupled with savage cuts in public expenditure to control money supply and credit.

The greatest problem that was experienced was the phenomenon known as 'stagflation' in which poor economic growth corresponded with high inflation therefore collectively making everyone less well off and, as many complained of at the time, especially in comparison to the United States, subject to high rates of taxation to support the delivery of public services such as the NHS, education and defence.

Memories of the 1970s which, of course, ended over 40 years ago, are fading – though many miss its somewhat eclectic music and sometimes bizarre fashion – and there's a danger that some mistakenly believe that the current situation is analogous to this decade. There are significant differences.

For starters, inflation is unlikely to rise anytime soon though, it's possible, a 'not great', or no, trade deal with the EU, could easily result in an adverse effect. Whereas there was a supply problem of energy in the

1970s, Covid-19 has created in this country, and globally, an extreme demand-side problem. Beyond the essentials, people are not consuming. Indeed, as advocates of ending lockdown contend, with much justification, unless some sort of return to 'normality' is achieved very soon, the retail sector is likely to suffer many more casualties than has already been experienced.

High unemployment, believed by Margaret Thatcher to be a price worth paying to control inflation and make industry more competitive, stayed at over 10% for the first half of the 1980s. Depending on how quickly the UK recovers from the Covid-19 crisis, this may be a problem that will have to be confronted again.

High unemployment creates a drag on economic growth, particularly in terms of consumption and the cost to the exchequer. That Chancellor Rishi Sunak has committed the Treasury to continuing the furlough scheme, estimated to cost at least £14 billion a month to pay the wages of 7.5 million people for another four months until the end of October tells us how nervous Boris Johnson's government is in allowing what's still hoped to be a short-term crisis become a much longer-term catastrophe.

The struggles of Edward Heath within his own party in the early 1970s as to state support for industry are vaguely resonant with the current government as to how much intervention is required. 'One Nation Tory' Heath instinctively recognised that those who'd suffered in the Second World War should not be let down.

Heath's eventual replacement as leader by Margaret Thatcher, an uber-monetarist, ushered in neo-liberalism cited by many as the reason why the UK ended up with so many people in poorly paying jobs on low salaries have been especially afflicted by the crisis resulting from Covid-19. That unemployment eventually fell in the late 1980s only to spike again in the early 1990s created the belief (?) that many were forgotten.

Tony Blair's government's ability to achieve both low unemployment and inflation appeared to be the zenith of what Thatcher had striven for.

Crucially, if there is any resemblance between post-Covid Britain and the 1970s, it may be in the desire that is already manifesting itself through support for a return much higher levels of investment in public services, particularly the NHS that is seen as being in the vanguard of the 'fight' against the pandemic. Belatedly, were the value of staff working in social care is now acknowledged.

Naturally, there is a question of how those who enthusiastically clap in support of the NHS every Thursday evening are prepared to pay in additional taxes to support it? The fact is, the money required has to come from somewhere.

If there is one thing that will link post Covid UK to its 1970s version it is the huge debt that will have been incurred.

Heath's attempts to control inflation led to Thatcher, under the guidance of economic adviser Sir Alan Walters, stringent control on the supply of money.

A similar intervention to solve the current, and developing, debt problem should not be contemplated. To do so would simply make the economic plight of those who are suffering during the current crisis, worse.

Public debt, that so preoccupied Margaret Thatcher and, of course, the coalition government under David Cameron that led to 'austerity', is not intrinsically a problem if understood in the longer-term. Investment in creation of the basis of a sound economy will produce the growth that, eventually, will allow the UK to recovery economically. Japan's 270% debt to GDP ratio shows that it high levels are sustainable.

Crucially, however, any recovery should be created to achieve the sort of opportunity through education and training possible in the 1970s, even after the oil shock of 1973.

If that occurs, a Covid-19 UK resembling the 1970s wouldn't be that bad.

*McGaughey, E. (2018), *Will Robots Automate Your Job Away? Full Employment, Basic Income, and Economic Democracy*, Centre for Business Research, University of Cambridge, Working Paper no. 496

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