

**Is it accurate to describe the 1970s as a decade  
of crisis? If so, what were the causes?**

INTRODUCTION – THE DEFINITION OF A CRISIS

The 1970s can accurately be described as a decade of crisis, with the nadir of a longstanding economic crisis eventually leading to a political crisis in which the country appeared to be ungovernable. In order to confirm this, the term 'crisis' must first be defined. Habermas borrows from systems theory, defining a social crisis in the sense that medics understand a crisis in an illness (the turning-point at which a patient either recovers or dies) or dramatic criticism defines a crisis in the life of a character (where the crisis is experienced as such and participated in, whether consciously or not, by the character concerned). In his view, such breaks occur in a society when it is unable to learn how to deal with changes which threaten its constitutive tradition. Competitive societies evolve from crisis to crisis, as the principle of social organisation leads periodically to economic slumps which put in question the key social relations on which they are based – that is, private ownership and the class system. The fact that a 'crisis consciousness' exists does not mean that a society is objectively in a crisis; however, in Britain, both the sense of crisis and various indicators (such as production, administrative capacity, legitimation and the means of capitalist motivation) were discernible, especially during the 1970s.

However, the passive 'constitutive tradition' referred to by Habermas is a rather intangible concept. Gramsci instead talks of an actively-constructed ideological hegemony being at stake. He defines a general or 'organic' crisis (also referred to as a 'crisis of authority', or 'crisis of the state') as a dissolution of the ideology that secures the consent of the population to the existing political order. In his Prison Notebooks, he states:

*"The crisis consists precisely in the fact that the old is dying and the new cannot be born; it is in this interregnum that a great variety of morbid symptoms appears."*

The situation in the 1970s has been compared to the serious constitutional crisis of 1910-14. However, few people saw the crisis in such a serious light, even by 1979. Such a time span existed between this and the previous crisis, and there were a number of novel aspects to it which meant that many people could not understand it for what it was. Principal among these novel aspects was the increased role of the state. In 1910 state spending was approximately 13% of GDP, while in 1975 this had risen to 58%, and about 30% of the labour force in 1977 was accounted for by the public sector. Tom Nairn has also argued that "since 1910 it has all been

‘crisis’, save for those few years in the fifties when we never had it so good” – this type of view may prevent the isolation of the 1970s in particular as the only ‘decade of crisis’; however, it does not undermine the argument that a particularly acute type of crisis existed during the 1970s.

### THE 1970S ECONOMIC CRISIS

The 1970s can certainly be described as a decade of economic crisis. The UK experienced unprecedented inflation and that the state was effectively bankrupt, requiring an international loan of \$5000 million and the happy accident of North Sea Oil in order to prevent the economy from total collapse. The rate of overall economic growth suffered a major decline; between 1974 and 1975 the economy was actually contracting. The rate of inflation was higher than in any previous decade, peaking in July 1975 at 26%; it was not until 1983 that inflation slowed to its 1970 level. This combined with the highest levels of unemployment experienced since the Second World War in a previously absent combination described as ‘stagflation’. The balance of payments deficit on ‘visible’ trade continued to increase; a surplus of £261 million in 1971 was transformed into a deficit of £2383 million in 1973, forcing an emergency deflationary budget. This deficit continued to grow to around £3600 million in 1974. Between 1970 and 1973, direct investment abroad trebled, suggesting that companies were ‘voting with their feet’ and moving assets to more profitable locations.

However, there are a number of comparisons which add caution to the argument that the 1970s, as a decade, experienced greater economic crisis than any other. Leys argues convincingly that the 1970s were part of an overall decline in the British economy during the 20<sup>th</sup> century. Other countries also experienced severe economic difficulties in the 1970s; what may be most exceptional about the British case is that the severe downturn began early, during the 1960s. Compared to the early 1980s, it may also be unfair to single out the previous decade; the balance of payments deficit increased every year until 1988, peaking at around £23,000 million, far higher than any 1970s values. Economic growth suffered a more severe decline in the early 1980s than it had ever done during the 1970s, while unemployment reached more than double its 1970s peak. Only inflation seemed to be under control. Finally, the number of days lost in strikes, while very high (especially in 1972 and 1979) compared to historical values for Britain, could be compared favourably to other advanced industrial nations. However, while it may be true that the 1970s were only a part of a longer period of crisis, and while factors such as strikes have been overemphasised (mainly by the New Right in their desire to portray 1979 as a turning-point), it is hard to argue that the 1970s was not at least *a* decade of economic crisis, even if it was not the *only* one.

Hobsbawm claims that “economic explanations of economic phenomena are to be preferred, if they are available” and rejects the view that explanations must be based on a conception of the social whole. Leys argues convincingly that “Hobsbawm’s attempt at disciplinary apartheid proved self-defeating”, as it is obvious (as suggested in the introduction) that the crisis could not be understood in purely economic terms.

#### THE LINK BETWEEN ECONOMIC AND POLITICAL CRISIS – THE STATE AND EXPECTATIONS

As argued above, the role of the state is critical to understanding the 1970s crisis as compared to previous crises in the British economy. As Ingham states:

*“The development of commercial capitalism in Britain, especially the outcome of the struggles to reproduce it in the face of adverse economic conditions, cannot be explained unless the independent role of the state is taken into account.”*

The legitimacy of any government was increasingly dependent on the productive health of the economy, as to an increasing extent, the state *was* the economy. Johnson rejects solely economic explanations, and claims that “the underlying social disease can best be characterised as the pursuit of illusions”. In his view, the Keynesian welfare state is based on fundamental political misunderstandings, chiefly an unshakeable belief in the providential power of the state. What is in Johnson’s view an exaggerated view of the role of government in steering the economy, and a declining sense of the importance of private decision and responsibility, has also contributed to longer-term economic failure. The electoral system in Britain serves to exacerbate this problem, with its ‘adversary politics’ encouraging the making of promises by politicians which could not be met. Central government attempts to control the economy are described by Johnson as containing “a generous dose of make-believe or bluff”, and he concludes that centralised management *without* adequate powers is at best pointless and at worst fraudulent. Expectations grew quickly abroad as well; Britain’s particular problem was a relative decline in its ability to satisfy them. Some evidence of this declining authority of social democracy can be seen in the declining share of the national vote awarded to the Labour and Conservative Parties together, from 93.2% in 1959 to 75% in 1974, and also in the growth of ‘extremism’ on the Labour Left and Conservative Right, but it is the sense of ungovernability which is the single most critical defining feature of the 1970s crisis.

#### THE POLITICAL CRISIS – AN UNGOVERNABLE NATION?

Government in the 1970s was controlled by the Conservative Party from 1970 to February 1974 and the Labour Party from February 1974 to 1979. Despite the different parties in power, and

very different manifesto commitments of the two governments, a remarkable similarity can be seen in the failure of both. A government would be elected on a certain manifesto, then due to economic pressure causing a crisis of confidence in these policies, many of the manifesto commitments would be abandoned. This 'U-turn' in policy would also fail to achieve any notable success in improving economic conditions, and the government would lose a general election. It is worth examining this model with respect to the Conservative and Labour governments in more detail.

In 1971 Heath dismantled the Prices and Incomes Board, Industrial Reorganisation Corporation and system of investment grants for businesses. The tax burden shifted toward the working class by about £2000 million, subsidies to council house rents were removed, and charges for medical care were increased. Under the 1971 Industrial Relations Act, industrial conflict was legally regulated to a greater extent than ever before; 'cooling-off periods' and strike ballots were made mandatory, unions allowing unofficial strikes were made vulnerable to civil law suits, and 'sympathy' or 'solidarity' strikes were made illegal. This effectively ended the government's consultative relationship with the TUC, who advised their members not to register under the Act. The unions and their members collectively were able to resist the government, in part due to continued public sympathy for miners, railwaymen, dockers and other employees in declining industries. The policy of cutting back the state was abandoned with the nationalisation of Rolls-Royce in 1971 and the establishment of an Industrial Development Executive in 1972. However, there was no significant rise in investment during the Heath years, largely due to companies seeking higher rates of return overseas. An increase in 'hot money' in commodity markets led to an increase in commodity prices and an increase in the import bill, stoking a rise in inflation. In November 1972 Heath ordered a definite change in policy and abandonment of a key manifesto commitment, introducing the most comprehensive ever set of wage controls. The increase in world oil prices in October 1973 added to the problems, and in November 1973 an emergency deflationary budget was called. The miners' unions sensed that the government was weak, and imposed an overtime ban, demanding pay rises of between 22% and 46% per worker. Heath declared a state of emergency, and by New Year, the country was on a three-day working week. The TUC sought compromise, but the miners pressed ahead with their strike. The General Election of February 1974 (Heath's famous referendum on 'who runs the country?') saw losses for both the Labour and Conservative parties, with gains for the Liberals and SNP.

Labour formed a minority government under Wilson, on a much more left-wing, radical manifesto than before, promising:

*“a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families.”*

Wilson aimed to repair the government's relationship with the trade unions and obtain their voluntary support for an incomes policy by means of a 'social contract', or set of understandings between the state, capital and labour. This promised co-operation of the labour movement with the Labour Party. Firstly, miners were given the pay rise which their unions demanded. The Trade Unions and Industrial Relations Act 1974 repealed entirely the 1971 Act. The 'social wage' (a measure of collectively-consumed services and social security benefits) was increased, with the repeal of the 1972 Housing Finance Act, an increase in pensions, the establishment of price controls and subsidies on 'necessity' food, and a slight shift in the tax burden back to the rich. A National Enterprise Board was set up to invest public funds in profitable sectors, while aircraft production and shipbuilding were nationalised, and 'planning agreements' were made with the largest firms. As a consequence of all this, Jack Jones, leader of the TGWU, agreed to restrict demands for wage increases to £6 per week. However, inflation and the balance of payments deficit were both spiralling out of control.

In March 1976, Wilson retired, to be replaced by Callaghan. It became clear that the balance of payments deficit would not be reduced, forcing a massive devaluation. In June 1976, Britain obtained a \$5000 million loan from foreign central banks, repayable within 6 months. By September it was clear that this could not occur, so Britain was forced to negotiate a long-term loan with the IMF, conditional on the imposition of drastic deflationary policies. The Callaghan government became almost entirely subordinate to the deflationary goals of the IMF. In his speech to the TUC conference of 1976, Callaghan declared that a government could no longer spend its way out of a recession, while Healey (his Chancellor of the Exchequer) imposed what has been described as 'the first Thatcherite budget'. This signalled a fundamental change in Labour Party ideology. Inflation had stabilised by 1978, but at the cost of almost complete social stasis and a complete failure in the Labour Party's manifesto commitments. The unions, no longer satisfied by the 'social contract', refused to cooperate with the Labour Party. In 1978, the TUC refused Callaghan's demand for wage restraint, beginning a 'winter of discontent' characterised by strikes in essential public services, which led to a vote of no confidence and must account to a large extent for Labour's electoral defeat in 1979.

Both Labour and Conservative governments had certain particular difficulties in governing the country. Labour governments found themselves ultimately impotent in the face of corporate control of markets, information and investment funds. Any effort to break this dominance could lead to a crisis of business confidence and 'capital flight' – the mass outflow of funds for

investment from Britain. Conservative governments, on the other hand, saw an increased decline in the 'national' sector of the British economy due to the growing internationalisation of business. Without a strong 'national' economy, a national party of capital risks the loss of its electoral base; indeed, Conservative-held constituencies were overwhelmingly and increasingly concentrated in southern England.

#### THE POLITICAL CRISIS – A DIVIDED NATION?

Further evidence of ungovernability can be seen in the way in which devolution became an important part of the mainstream political agenda. The political crisis included a challenge to the continued existence of the UK as a unified nation. In Scotland and Wales, the nationalist parties gained from the decline in Conservative and Labour support. Referenda on devolution were held; however, the rules were set by anti-devolutionists within the Labour and Conservative parties, requiring at least 40% of the Scottish electorate to vote 'yes'. In March 1979, 52% of voters in the Scottish referendum supported the creation of a separate Assembly, but this represented only 33% of the electorate. The SNP vented their frustration by supporting Thatcher's motion of no confidence in the Labour government, despite wide ideological differences with the Conservatives. In Northern Ireland, the situation was of course much more serious; a major collapse of authority, not necessarily as a result of the economic crisis, but closely linked to it. Unemployment in Belfast was high and increasing rapidly, with job losses concentrated in staple industries such as shipbuilding and textiles; Catholics were hit hardest by the economic crisis.

The 1970s saw no satisfactory resolution of the class conflict in British society. There is a contradiction between the need for capital to move to an ever-higher level of exploitation and the determination of workers to resist this, which presented itself as a conflict to be resolved within the existing political framework (defined by the competition between the two main parties). Leys claims "it took two decades to discover that this was impossible". Wilson aimed to appeal to 'both sides of industry' against incompetence, not to the just to the working class against capital. This consensus was endangered by industrial weakness. Successive governments tried to save profitability and appease foreign investors by cutting wage increases from before the 1970s, seemingly subordinating all other goals to the defence of the capitalist economy at a time when unions had very little control over their members. In 1969 the unions threatened to withdraw their support for Labour if the government's proposals were taken any further; this represents a turning-point in the politicisation of industrial conflict. Such tension may also have given rise to the rapid growth in radical new political movements, such as student activists and revolutionary left-wing groups, offering a radical alternative to the consensus, and far-right organisations, trading

on public insecurity and the ability to distract people from current economic problems with racist agendas.

## CAUSES OF THE CRISIS

Having established that the 1970s were indeed a 'decade of crisis' in Britain, the causes of this crisis will now be analysed more systematically. Three explanations will be offered – the effects of changes in the global economy, the failure of successive governments to implement a coherent strategy for post-war economic recovery, and the 'flawed Fordism' of British industry.

### Effects of changes in the global economy

Leys talks of a worldwide accumulation crisis, based on four main factors: the exhaustion of the impulse of technological innovation which had been driven by the Second World War, Japanese competition in all the most advanced areas of production, the movement of manufacturing capital to cheap-labour countries such as Taiwan and Brazil, and finally the oil price increases after 1973. In 1975, world trade did not grow for the first time since 1948. This does by itself not explain Britain's position as a special case, however. Britain was especially vulnerable for two main reasons. Firstly, manufacturing capital was very centralised, with the largest 100 companies accounting for 50% of total output in 1970 (compared to 15% in 1910). Secondly, it was highly internationalised; 50 of the top 100 companies were multinationals, accounting for over a quarter of all Britain's visible exports. In 1979, 19.5% of visible exports were from American-owned firms, while one third of the profits of British multinationals came from overseas.

Stuart Holland's related theory includes the rise of a 'meso-economic' sector in between the macro and micro level. The sheer scale and complexity of these companies are seen to disrupt the conventional wisdom about state economic management; companies had become partly immune to state policy. In 1975, Britain contained 140 of the top 500 European companies, yet its economic performance was very low; according to Holland:

*“leading multinationals have written Britain off as the main location for their expansion, and are shunting investment and jobs in modern industry abroad.”*

In this view, Britain had become just a 'location' in the global division of labour, and an increasingly unattractive one for business at that.

### Government failure to implement a reconstruction policy

Keynes claimed that after the war, Britain was “virtually bankrupt and the economic basis for the hopes of the public non-existent”. Britain found this hard to accept, and no over-riding priority was given to economic reconstruction. Coates talks of a ‘lost opportunity’ to be Europe’s leading industrial power, due to the world pretensions of Britain’s leaders and the international role of our financial institutions. He points out that early post-war defence spending in Britain accounted for a proportion of GNP 4-5% higher than that in Germany or Japan. The funds used for defence in Britain were used in Germany and Japan for productive capital investment.

In 1945 the UK’s perceived world role required that sterling be made available as a second reserve currency, stable in its exchange rate with the US dollar. Confidence in the pound required a constant balance of payments surplus, forcing the maintenance of high interest rates to dampen demand for imports and hold speculative capital in sterling. However, British productivity in manufacturing was in relative decline and by the late 1960s was little over half the German equivalent. This led to speculation against the pound, as foreign holders of sterling judged that the government would not cut home demand enough to close the gap in the balance of payments. Governments resisted this by using foreign exchange reserves to buy sterling, and deflating the economy to reduce the demand for money, causing an increase in unemployment. There was a failure at the time to realise the true extent of the productivity gap, and according to Leys the prime cause of the failure was the attempt to maintain the exchange rate on an industrial base which was too weak to support it. Immediate industrial modernisation and long-term manufacturing investment had been damaged by a genuinely unique ‘stop-go’ policy geared to sterling’s protection.

Ingham takes an institutionalist view of this problem, claiming that the ‘City-Bank-Treasury nexus’ was the dominant force, and the power of industrial capital was strictly subordinate to this. Its influence was exercised both overtly, such as ‘gilt strikes’ in which offers of the state’s securities are not taken up, and covertly, whereby ‘City opinion’ calculates that stock values or sterling may collapse if certain policies are pursued or not pursued – pessimistic appraisals which are ‘invariably self-fulfilling’. This consensus of this nexus is strengthened by a recognition by City firms that mutual protection is necessary to safeguard their viability, and by the shared backgrounds and exclusivity of the City elite.

Johnson focuses on the failure of successive governments to choose between the market mechanism (where motivation is based on individual, private advantages) and a dirigiste economy (where the motivation is in serving the public good). In his view, a ‘mixed economy’ signifies intellectual confusion. Changes in government made little difference to this confused consensus. Attlee’s preference for public planning was generally muted, while the Conservatives (apparently

favouring the market) were too concerned with holding on to power. Johnson claims that the pursuit of full employment for its own sake, and as the major economic policy objective, led to a distortion of economic policy-making, with confusion about the principles on which economic activity was to be based and the terms in which it could be justified to society. Public opinion 'came in a shallow way to accept the welfare motivation as morally superior to the pursuit of particular economic interests' while public understanding of the market mechanism 'atrophied'. Keynesianism was, according to Johnson, inappropriate to the problems faced by Britain at the time. It was backward-looking, relating to the problems of the 1930s, and distracted from the problems inherent in a full-employment situation such as the dominance of unions and large enterprises. Furthermore, it took for granted the principles of a competitive market economy, not realising that a single-minded concentration on macro-economic guidance could affect fundamental economic assumptions. Such views are also prevalent in the writing of New Right economists such as Hayek and Friedman.

Johnson develops his argument by claiming that the continuity of British institutional development has hidden the people from the dangers of tyranny, the very strength of the political order leading to a belief (quoting De Tocqueville) in the 'sole, simple, providential and creative power of government' and an erosion of any sense of dispersed responsibility for economic decisions. He claims that Britain saw a 'steady but inexorable retreat into a world of effortlessly produced cakes and ale'.

### **Flawed Fordism – the failure of British industry**

The productivity gap between Britain and Germany has been mentioned above. The blame for this must be shared by both the workers (including their union representatives) and management. British workers had a great deal of influence remaining from the war years and the 1950s, and were no longer impressed by the 19<sup>th</sup>-century 'work ethic'. Joe Gormley, President of the NUM, seemed to confirm this in 1979 when he claimed 'The British people were not made to work'. Rank and file resistance was prevalent; unofficial strikes not endorsed by unions made up 95% of all strikes in the 1960s.

Coates talks of a 'Flawed Fordism', strong on the welfare state side of the deal, but poor on investment and industrial modernisation. The UK economy was fragile; large companies were in difficulty due to low and falling profits, a rise in industrial militancy and the intensification of international competition. Jessop points out:

*“British-owned industry based at home rarely got the same returns from the new techniques of production as its overseas competitors or, indeed, as foreign-owned multinationals did inside Britain.”*

This he attributes to the slow rate of growth in Britain, the impact of Britain's distinctive form of union organisation and the inadequate managerial skills of British entrepreneurs. The expansion of the state sector of the economy can also help to explain the failure of British industry. Public sector wage demands encountered only political limits set by the government's will to resist, meaning that nationalised companies were not run according to the fundamental principles of capitalist business.

Coates focuses on 'modes of co-ordination' – split into markets, hierarchies and networks. In markets, prices transmit information between agents keen to engage in exchange; in hierarchies, there are clear vertical lines of command and a strict horizontal specialisation of tasks; in networks, outcomes are negotiated by functionally or socially related individuals or groups. Different sectors rely more heavily on some modes than others – the economy generally relies on markets, social life on networks, and the state on hierarchies – but no single mode enjoys a monopoly of organisation in any sector. Elbaum and Lazonick take a very long-term view of the crisis, claiming that the free play of market forces did not trigger industrial expansion post-1890 because of the weight and influence of pre-established networks of interests opposed to change. There is, in their view, a missing market actor – the key to Britain's economic underperformance was the absence of the Weberian hierarchy of the modern business corporation. The UK came to associate industrial success with laissez-faire economics, consolidating a liberal capitalist populist culture.

## CONCLUSION

The 1970s were indeed a 'decade of crisis' in Britain. However it would be simplistic to view these years as an entirely unique decade, suddenly and unexpectedly thrown into crisis from an harmonious 1960s; relative economic decline was a feature of Britain throughout the 20<sup>th</sup> century, and serious decline was clearly present in the 1960s. The 1970s can more realistically be seen as the decade in which it became most clear that the post-war consensus was no longer viable, and that in which the extent of Britain's crisis of governability became apparent, as both Conservative and Labour governments were forced into embarrassing policy U-turns and entirely failed to achieve their initial aims for the economy.

In the context of such a long-running decline, it is difficult to apportion blame to any single institution or single event. However, the primary cause was the relative weakness of British industry, in terms of its productive capacity and its relationship with government, which both

encouraged and allowed successive post-war governments to pursue policies which protected the interests of the City above those of industrial capital. Only when combined with a global economic downturn, which dashed the unrealistic expectations of workers and pushed them towards industrial militancy, did the full extent of this inherent weakness become apparent.