

THREE CRISES OF CAPITALISM

2. THE OIL SHOCK AND NEO- LIBERALISM

MARTIN DAUNTON



GRESHAM
COLLEGE

The Nixon Shock, 15 August 1971

Closing the gold window and the New Economic Policy



Source: Richard Nixon Library

‘Exorbitant privilege’ and ‘deficit without tears’

De Gaulle, 1965: “This unilateral facility which is granted to America is serving to cloud the idea that the dollar is an important and international medium of exchange, when it is a means of credit belonging to one State”.

Giscard, 1970: A currency that aims to play an international role as an accounting unit must obviously be of a highly fixed nature, since the other currencies cannot be permanently determined in relation to a standard that is no longer fixed but variable. None of you would agree to set his watch by a clock that was out of order.....”





MILTON FRIEDMAN AND FLOATING RATES

‘There is one and only one satisfactory solution: abolish governmental price fixing. Let exchange rates become free market prices determined primarily by private dealings. Let the government simply stay out of the picture’.

John Connally, Secretary of the Treasury

“a tough Texan who thinks like a shrewd poker player and not a sophisticated exponent of diplomacy.”

“My basic approach is the foreigners are out to screw us. Our job is to screw them first”.



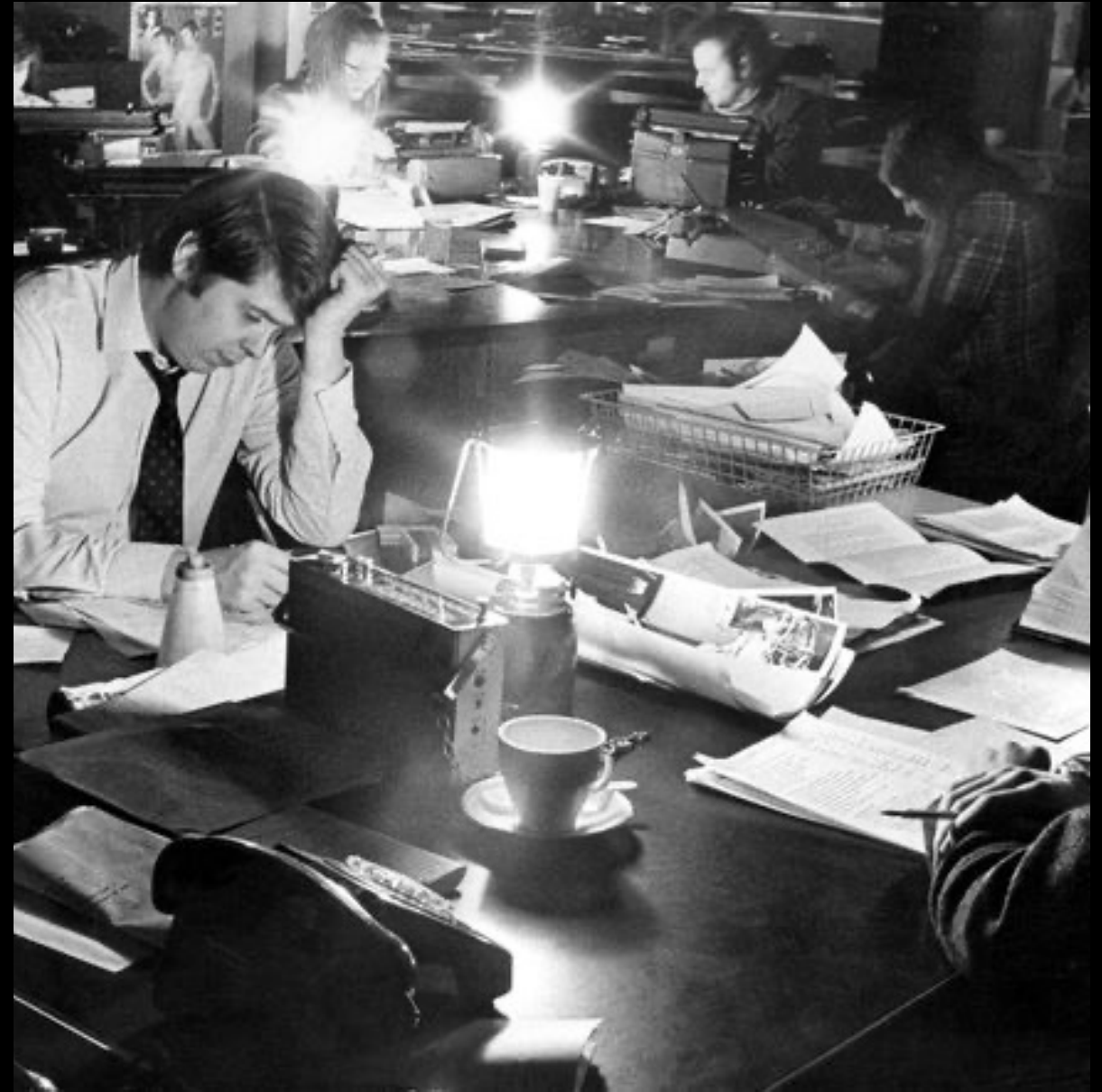
GEORGES POMPIDOU TO RICHARD NIXON,
FEBRUARY 1972



“.... certain shortcomings which risk weakening the correct implementation of our agreements as well as to my preoccupation over steps taken or of positions envisaged by your administration and which, at first glance, do not seem to me to be consistent with what we agreed.”

“the combination of a large budgetary deficit and of a policy of systematically low interest rates”
weakened confidence in the dollar.

The lights go out on Tyneside, 1974



Jim Callaghan, Labour Party Conference, 1976:

“The cosy world which we were told would go on for ever, where full employment would be guaranteed by a stroke of the Chancellor’s pen, cutting taxes, deficit spending, that cosy world is gone.... [Unemployment] is caused by paying ourselves more than the value of what we produce.... We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked ... by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step.”

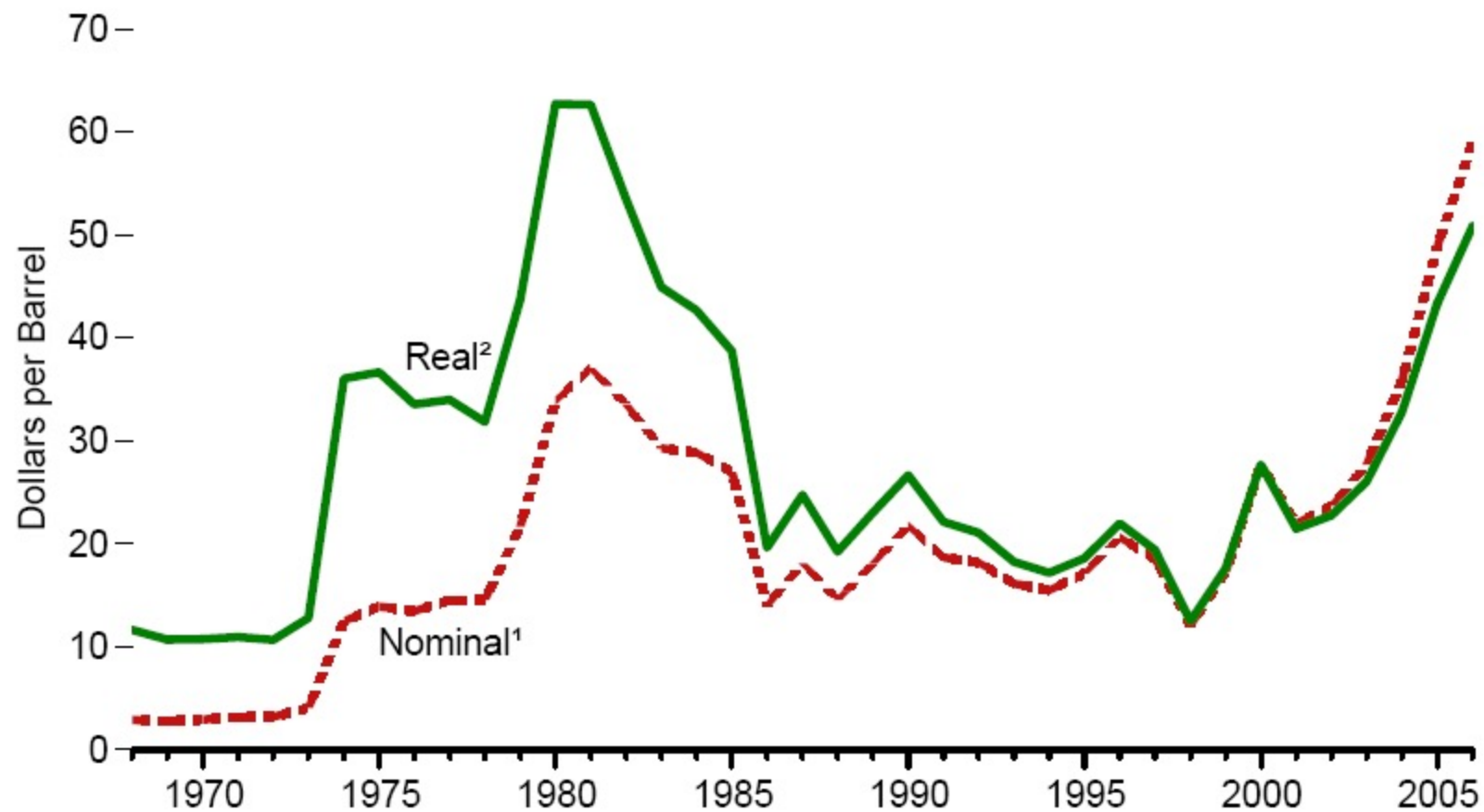


The Oil Shock, 1973



c. Fritz Behrendt

Imported Costs



The New International Economic Order, 1974

“full permanent sovereignty ... over its natural resources and all economic activities. In order to safeguard these resources, each State is entitled to exercise effective control over them and their exploitation with means suitable to its own situation, including the right to nationalization or transfer of ownership to its nationals, this right being an expression of the full permanent sovereignty of the State.”

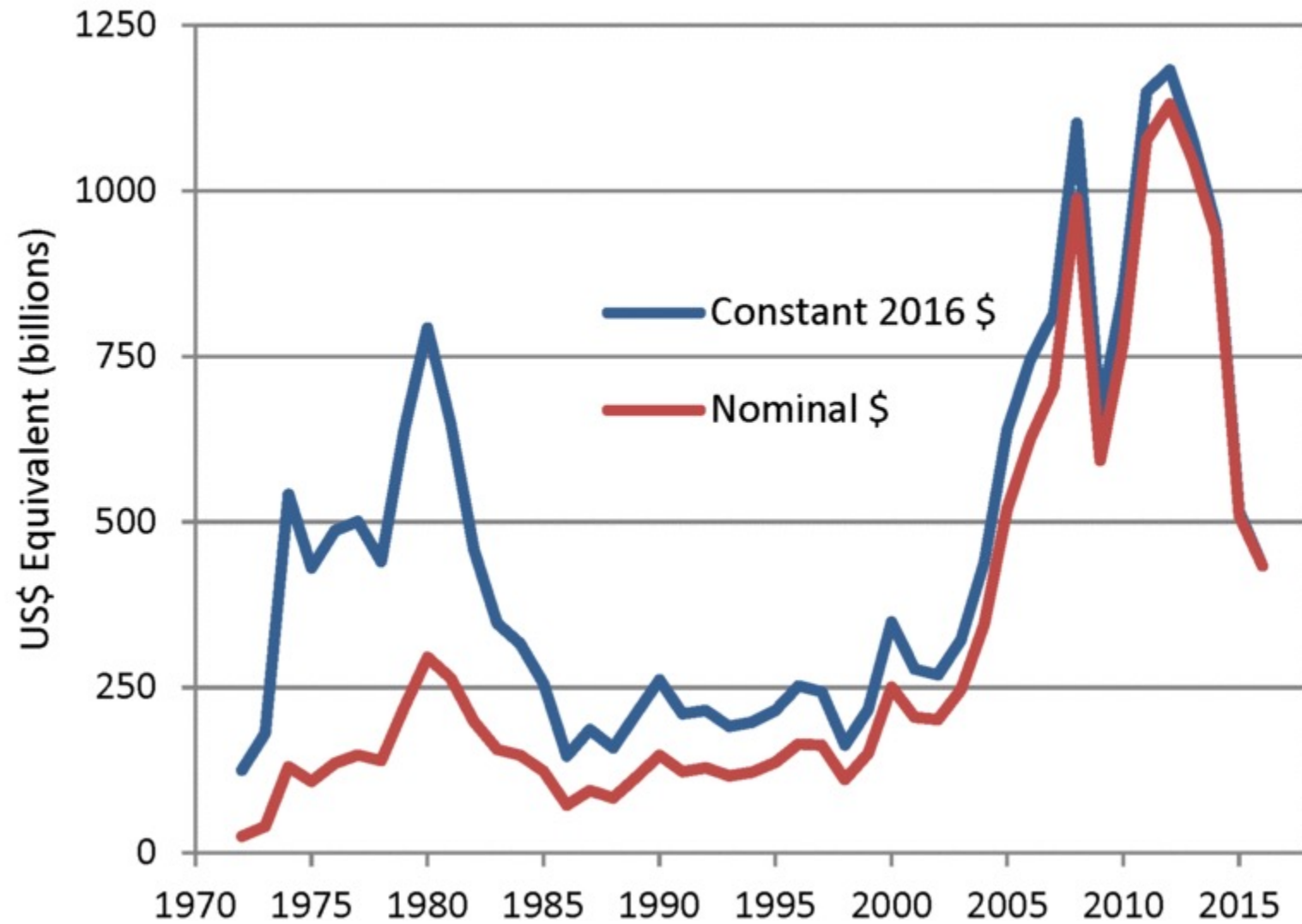


HENRY KISSINGER'S RESPONSE TO OPEC AND NIEO

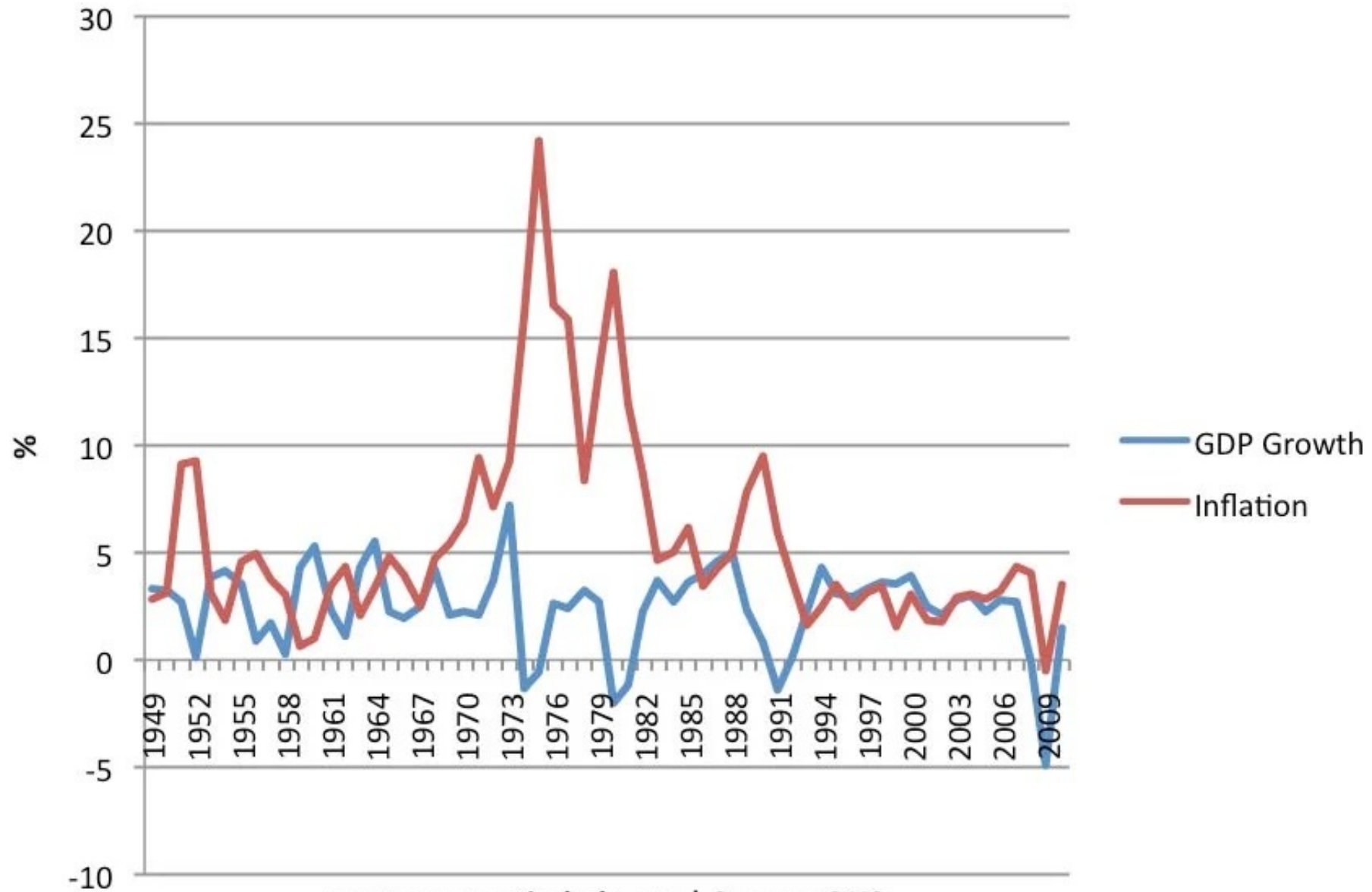
‘Our basic strategy must be to hold the industrialized powers behind us and to split the Third World. We can only do that if we start with a lofty tone and a forthcoming stance..... Bloc formation in the Third World can be inhibited only if we focus attention on practical measures in which they have a tangible stake.’

Tactic - ‘to break ... the unholy alliance between the LDCs and OPEC.’

OPEC Net Oil Export Revenues



Inflation - Growth UK

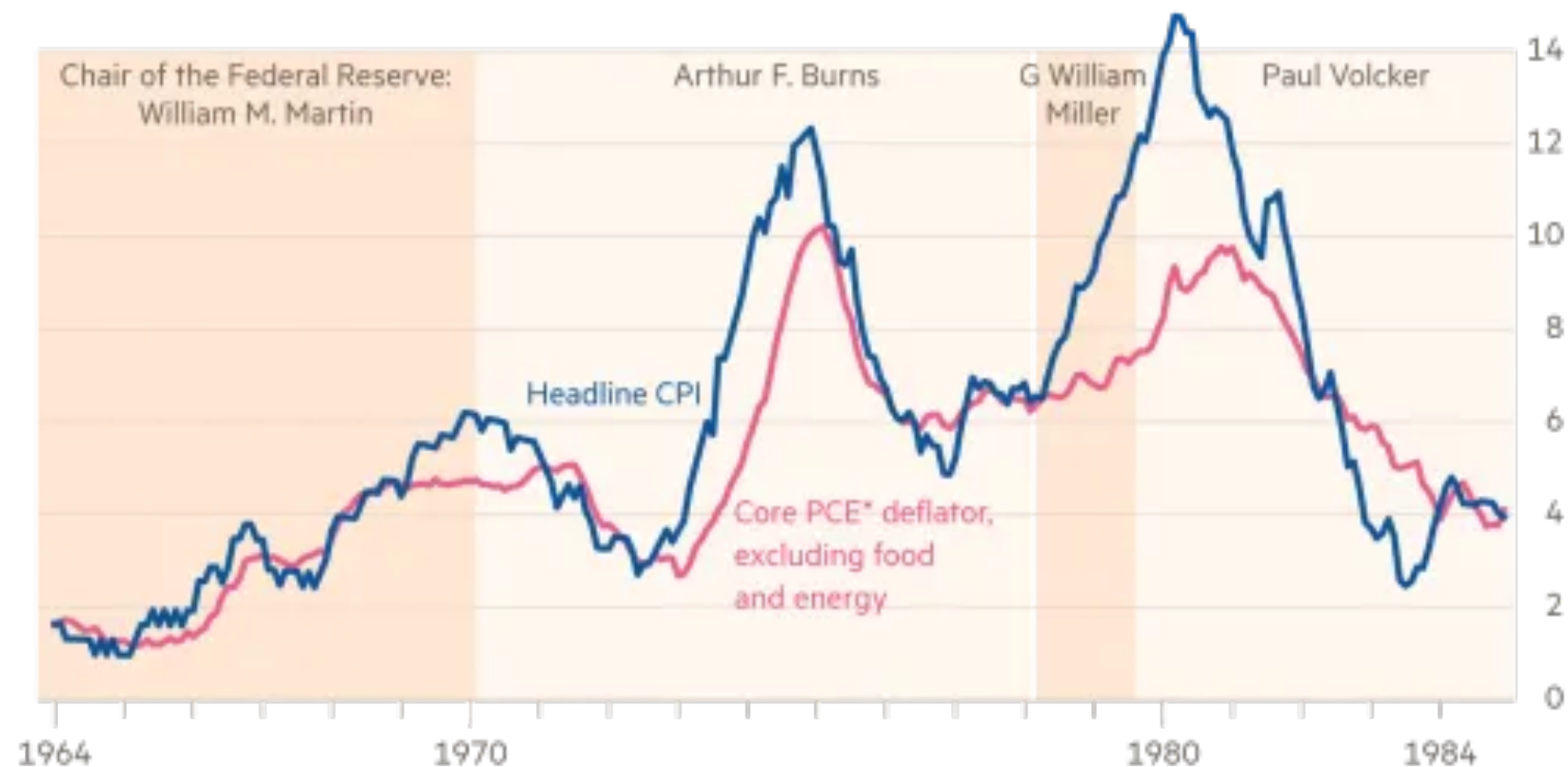


VOLCKER TO JOINT ECONOMIC COMMITTEE

“An entire generation of young adults has grown up since the mid-1960s knowing only inflation... it is hardly surprising that many citizens have begun to wonder whether it is realistic to anticipate a return to general price stability, and have begun to change their behaviour accordingly. Inflation feeds in part on itself. So part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations.”

Inflation rose very quickly in the 1970s

Annual % change in US price measures



*Personal consumption expenditure

Source: Refinitiv

© FT

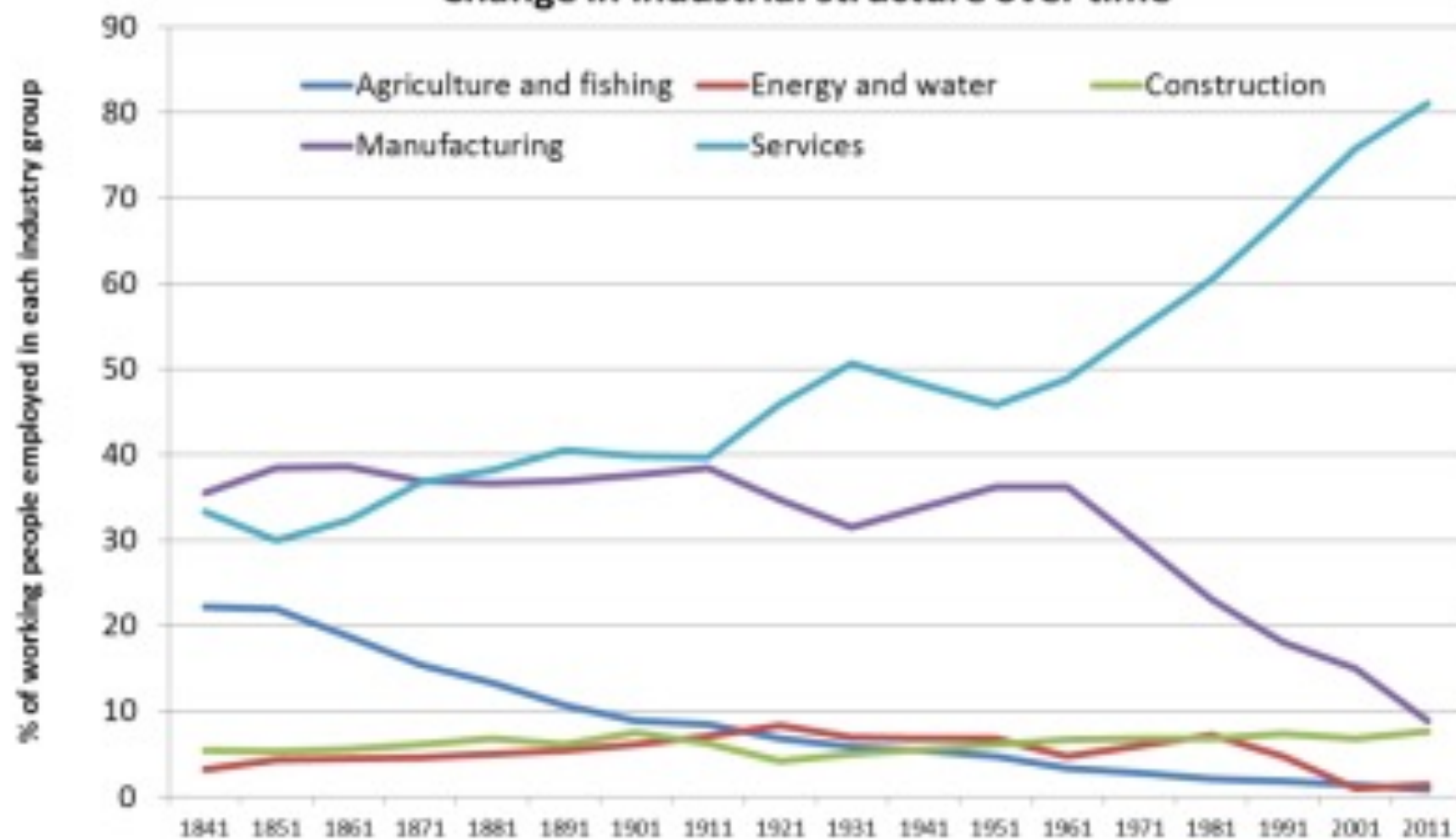


Geoffrey Howe, Budget speech, 1979

“We need to strengthen incentives, by allowing people to keep ore of what they earn, so that hard work, talent and ability are properly rewarded. We need to enlarge freedom of choice for the individual by reducing the role of the State. We need to reduce the burden of financing the public sector, so as to leave room for commerce and industry to prosper.”

Figure 1

Change in industrial structure over time



Source: ONS, Census



자본시장 대폭 개방
국가는 국제통화
희생양 /
경

국민은 겨우인다.
즉시, 재협상하라!
경제정의실천시민연

내 손에
시작한 주4일
연말연시
연말연시

CONSULT
KOREAN PEOPLE
FIRST!
CCEJ

RE-NEGOTIATE
THE IMF
AGREEMENT!
<Citizens' Coalition
for Economic Justice>

KOREA
FINANCIAL
COLONY?
NO