The West Struggles with Inflation

By the early 1970s, the Western industrialized nations of Europe, Canada, the United States, Japan, and other states were facing gripping economic problems. Despite tremendous economic growth during the 1950s and 1960s, the economics of a new era was, by the next decade, already in the making. This era, largely dominating the 1970s would prove difficult for the West to recover from.

At the center of this economic downturn was the increasing cost of energy, particularly as it related to oil prices. As has already been explained, the oil producing and exporting nations of the world (organized in the cartel known as OPEC and dominated by Middle Eastern, Arab-controlled nations) dramatically increased the price of a barrel of crude oil early in the 1970s. Where oil sold for as low as $1.60 a barrel in 1970, by 1975, it had risen to $9 a barrel. By 1980, a barrel of oil was priced at nearly $20.

This move in oil prices nearly crippled the economies of the Western industrialized states. The annual inflation rate experienced by some Western nations reached from 13 to 20 percent by the mid-1970s. This trend led to massive unemployment in the West. Such downturns did not reach their lowest levels until the early 1980s.

Desperate to revitalize their ailing economies, some Western nations turned to political solutions to remedy soaring unemployment, high inflation, and the ongoing energy crisis. Voters in some nations brought into office more conservative leaders. Still other states continued to rely on socialist or liberal leadership to lead their nations out of their economic slumps.

In 1979, for example, British voters elected a new prime minister from the Conservative Party—Margaret Thatcher. Thatcher's conservatism relied heavily on Britain's private sector to defeat the inflation and poor economy of the 1970s. Many of Thatcher's economic policies were based on monetarist or supply-side theories. Known in America through the economic policies of President Ronald Reagan (elected in 1980), supply-side economics argues that inflation rises dramatically when government pours too much money into the economy—more than the rate of a country's overall economic growth. Thatcher oversaw reductions in taxes in Great Britain, hoping to encourage investment by the wealthy in the economy and an increase in personal spending by the remainder of the population. By the mid-1980s, Thatcherism seemed to do the trick, as inflation nearly evaporated.

In Germany, conservative politics also battled inflation. In 1982, a conservative leader, Helmut Kohl was elected. The Kohl administration cut welfare spending, cut corporate tax rates, and froze the salaries of government workers. Two years later, West Germany's inflation rate was two percent.

Other European powers took less drastic governmental steps to solve their inflation problems. Sweden, for example, cut its dependence on foreign oil by 50 percent between 1976 and 1986. By 1987, Sweden's inflation rate was four percent.

In France, a conservative president, Valéry Giscard d'Estaing, was elected in 1980, but left office in 1981 because of personal scandals. François Mitterrand, a socialist, was elected. Although he attempted to battle inflation by raising wages and increasing social spending, his policies did not bring the results he was looking for. In the end, he was forced to turn to more conservative measures, which included cutting the cost of France's welfare program.

Review and Write

After reviewing the steps taken by various leaders and states, identify one step taken to battle the crippling inflation of the 1970s by leaders in the following countries.

Great Britain:

France:

West Germany:

Sweden:

Do you see a similar approach in how leaders in Europe brought inflation under control during the 1980s?