The Seventies

by Judith Stein

Gas ration stamps being printed, Bureau of Engraving & Printing. (Library of Congress, Prints and Photographs Division)

Long overshadowed by the tumultuous 1960s and the transformative 1980s, the 1970s has finally been recognized as an era in its own right. And it is more than Watergate, big hair, and disco. During the 1970s, postwar affluence was undermined by new international competition with Japan and Europe and high-priced oil. The mixed economy bolstered by Keynesian aggregate demand could not right the ship and new economic principles privileging markets and capital were embraced by the victorious Republican Party in 1980. Nevertheless, the movements to redress racial and gender inequalities begun in the 1960s continued. The war in Vietnam, the source of so much conflict in the late 1960s, ended, although the American objective, a non-Communist South Vietnam, was not achieved. The Communist North united the country in 1975. But if Cold War issues receded during this era of detente, foreign economic policies assumed a new importance during the decade.

The new international competition was launched when American allies in Europe and Japan embraced export strategies to revive their economies after World War II. Most of their goods ended up in the United States, the largest and most open market in the world. American foreign policy elites encouraged the imports to cement Cold War alliances. But the price was the US trade balance, which turned negative in 1971 for the first time since 1893. The AFL-CIO, the nation's labor organization, believed that a more managed policy would rebalance the trade, encouraging investment in the domestic economy. President Richard Nixon thought that devaluing the dollar would do the trick. So, in August 1971, Nixon ended the fixed monetary system established by international agreement in Bretton Woods, New Hampshire in 1944. No longer would the dollar be tied to the gold standard. It would float, without government intervention, and presumably decline in value. The dollar did become cheaper and in the short term imports fell, but that was largely because the global economic boom in 1972 and 1973 kept European and Japanese goods at home. After 1975, the trade deficit continued to tax the American economy. When Americans bought more than they sold, their demand produced jobs abroad and debt at home.

In the fall of 1973 oil prices quadrupled in the wake of the Arab-Israeli war, as oil-producing nations in the Middle East embargoed oil in retaliation for American support in Israel. The rise resulting from the energy crisis simultaneously raised the rate of inflation and produced a recession in 1974. The higher oil prices siphoned dollars from the domestic economy to the new producers, organized as OPEC (Organization of Petroleum Exporting Countries). In May 1975, unemployment peaked at 9 percent, the highest since before World War II. Plagued first with inflation and then recession, the economy could no longer reconcile conflicts between workers and capitalists. In 1974, there were more strikes than in any postwar year.

At the beginning of the economic crisis, most Americans had their eyes on a political crisis, Watergate. The break-in at the Democratic National Committee headquarters in the Watergate Office Complex was discovered in June 1972. The connection of the burglary to the President was made only after the election. Through August 9, 1974, when President Nixon resigned to avoid impeachment, the details of the burglary, and the larger spying operation, came out in the courts, the Senate Watergate Committee, and the media.

The new president, Gerald Ford, had been appointed vice president when incumbent Spiro Agnew resigned in October 1973 after charges of bribery and tax evasion while governor of Maryland. The unelected new president pardoned President Nixon for any role he might have played in the Watergate affair, thus precluding any criminal penalties for the break-in and cover-up. Although Ford thought he was ending the matter, the pardon gave new life to the scandal and made the President's task of addressing the economy more difficult.

Ford believed that the inflation issue was the nation's primary problem and that it was caused by excessive government spending as well as the oil price increase. The Democratic Congress believed that unemployment was the key problem. The result was stalemate and then compromise. Ford was forced to accept tax cuts and growth resumed in late 1975 and 1976. Inflation, which had peaked at 11 percent in 1974, fell to 5.8 percent, but unemployment remained high at 8 percent. Elections would determine economic matters.

The presidential election in 1976 was the first one where primaries or caucuses selected the candidates. It had started with the McGovern commission in the Democratic Party. Reformers believed that the party-determined convention was undemocratic. The new primary system was governed by a finance law passed in 1974. Responding to illegal corporate donations and hidden slush funds that fueled the Watergate wrongs, elections and primaries would be financed partially by the taxpayer.

Prospects of a Democratic victory produced a large crop of candidates, most of whom were congressmen or senators. Washington experience was still considered a requirement for presidents. Nevertheless, the candidate who won the nomination had a different history. The relatively unknown Jimmy Carter had been elected governor of Georgia in 1970, representing a new South that could accept the civil rights revolution. Carter's ability to outpoll Alabama governor George Wallace, who had been the public face of the South's opposition to desegregation in the 1960s, made him a favorite of liberals. But Carter trumpeted the post-Watergate morality—his honesty and trustworthiness—not his racial views. Unemployed at the time because of the one-term limit for Georgia governors, Carter pioneered the strategy of spending huge amounts of time in Iowa and New Hampshire, the first two primary states. The unelected Ford won his party's nomination despite a spirited primary challenge by Ronald Reagan, the former governor of California.

The presidential race was close up to the end. Ford stressed the classic Republican theme that too much government spending deprived business of the capital it needed to invest and employ. The Democratic platform also stressed economic issues, arguing that it was the government's responsibility to maintain full employment. Yet Jimmy Carter sidestepped these traditional Democratic ideas for the morality and leadership themes that had won him the nomination. Despite the Georgian's moral rhetoric, class voting returned as the new president's margins increased as the voters' wealth decreased. Carter was elected, with 51 percent of the vote. Democratic Congressmen did even better. Democrats enjoyed a 292-143 advantage in the House and a 62-38 margin in the Senate.

The economy turned the Democratic 1976 victory into a rout in 1980. When Jimmy Carter took office, the economy was growing but unemployment was high, 7.5 percent. Carter's advisors recommended a stimulus, but Carter was reluctant. In the end a small stimulus of almost 1 percent of GDP passed, but this was less than the amount Ford accepted in 1975. The unemployment rate fell to 6.4 in early 1978, but the figure was that low because of 300,000 new and temporary public employment jobs. Wages had been stagnating since 1973, largely because of meager productivity gains. Rising imports continued to eat away at the nation's manufacturing base. The economy was faltering but the President seemed complacent. Without White House leadership, in 1978 the Congress reduced the capital gains tax, a goal of Wall Street banks. Financiers claimed that a lower tax on the sale of assets would encourage investment and jobs. The argument was flawed, but the Keynesian tax cuts produced more imports than jobs. In the absence of alternative policies to improve the economy even liberal Democrats supported the measure.

Then the Iranian Revolution, beginning in late December 1978, produced another oil shut-down and price increase. Facing another bout of inflation, Carter appointed Paul Volcker as head of the Federal Reserve Board in August 1979. Volcker chose to fight inflation, but the resulting high interest rates only raised the inflation rate and produced a severe recession as well. The gyrating economy in 1980 made Carter seem incapable. To bolster his reelection chances, Carter proposed a plan to revive manufacturing in September but it was vague and too late. The Republicans had nominated Ronald Reagan. Reagan challenged the mixed economy of the postwar era. He asserted that capital freed from taxation, regulation, and trade barriers would produce national and labor prosperity. Government was the problem, not the solution.

Reagan won 51 percent of the vote, but a landslide in the Electoral College. Most observers thought the vote was an anti-Carter referendum, not a conservative conversion, but the new president acted as if his victory was a rejection of Keynesian liberalism. He reduced taxes, dismantled business regulation, privileged the fight against inflation, fought unions, promoted an expensive dollar, and championed free trade. These policies altered the composition of the US economy. They promoted financial services and real estate and injured manufacturing. They benefited affluent workers more than poor ones, reinforcing the inequality that began in 1973. The economy benefitted from the fall of the price of oil during the1980s. But the other problem that undermined the prosperity of the postwar world, international competition, remained and still remains today.

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