THE LONG BOOM

The biggest economic event in the 1970s was the end of the "Long Boom" and the search for a new way of running the economy. Economic thinking was transformed by the end of the 1970s.

The Long Boom began at the end of World War II in 1945 and it ended in 1973. It was the longest period of consistent economic growth in world history. It was a time of low unemployment, greater choice of consumer goods and optimism about the future.

One reason for the Long Boom was the economic philosophy that required governments to be actively involved in managing the economy. The old philosophy had meant that governments did not get involved in economic affairs except for collecting some taxes.

For example, unemployment was seen as act of nature – like floods and droughts – something that could not be prevented. It was something that the government could do nothing about. It had to be waited out with the hope that the good days will return eventually.

Now economists said that governments should take responsibility for ending unemployment. For example, governments could stimulate economic growth by cutting taxes or creating big expenditure projects, such as by building houses and roads or spending money on the arms race.

When the United Nations Charter was being finalized in 1945, Australia even had promoting "full employment" as one of the UN's aims for international economic and social co-operation. There was a genuine belief that the high rate of unemployment of the Great Depression of the 1930s was now a thing of the past. Politicians were expected to create full employment, if necessary through public works programmes.

In the early 1960s, it was said that the New Zealand government feared that if the number of Kiwis without a job reached a hundred people, then the government could fall. Throughout the Long Boom the total number of unemployed Kiwis was so small that their names could (in theory) have been published in the newspaper each day.

Second, in 1944 at Bretton Woods in the United States, towards the end of World War II, the western governments agreed to end the financial anarchy of the 1930s. They agreed to fix their national currencies against the US$, which itself was fixed at US$35 to the ounce of gold.

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Importers and exporters were now assured of stable prices. The UK pound, for example, maintained its same value against the US$ from 1949 to 1967 (now it varies every second). There were tight controls over the movement of money from one country to another. British tourists had to record in their passports how much money they were taking out of the country. Japanese tourists were not allowed out of their country at all until the 1960s.

A rising tide lifts all boats. International trade grew to new levels. In 1947, the General Agreement on Tariffs and Trade (GATT) committed western governments to encourage international trade by reducing national protection measures and allowing their citizens to buy more goods from overseas. World trade grew at a faster rate than did national economies.

Third, there was a population boom. Few babies had been born in the Great Depression and World War II. In 1945, the soldiers returned home and made up for lost time. The people born between 1946 and 1966 – the "Baby Boomers" - are the largest single age group in the history of the western world.

New homes had to be built for all the additional people and so families moved out into the suburbs to live on land that was previously used for farming. Suburbs required roads and cars for transport. People needed to eat while they travelled and so the "fast food" industry was developed to cater for travellers.

Fourth, technology was mobilized for the tastes of consumers. The parents of the Baby Boomers were determined that their children should have the toys and other gifts that they did not get because of the Great Depression and the war.

New toys were developed. Pop music, radio, television and movies all became major economic activities. There were "tie-ins" between movies and particular toys, such as "Davy Crocket" hats and guns when Walt Disney released the movie of the same name. Clothes became a major fashion item. For the first time in history, young people had enough money to be regarded as a key consumer group in their own right. They rebelled against the tastes of their "old-fashioned" parents.

The Long Boom ended standing in a petrol queue in October 1973. The Long Boom was partly fuelled by cheap oil. The US had regarded oil from the Middle East as a strategic commodity and so it ensured that the price was kept low (and in fact it went down during the 1960s).

Then in the October 1973 Middle East war, the Arab states broke away from US domination and used their supply of oil as a weapon to isolate Israel. The Organization of Petroleum Exporting Countries (OPEC) first stopped the supply of oil for a few days and then increased the price of oil by about 400 per cent.

The Long Boom was already showing signs of slowing down. The OPEC crisis simply pushed the western economies over the edge and into a recession. There was alarmist

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speculation in the media about the "end of capitalism" (which increased after the April 1975 US defeat in Vietnam). Suddenly, the post-war mood of optimism was giving way to pessimism.

The standard government tools of economic management were no longer working as well as they used to. The record levels of economic growth were declining and there was "stagflation": a mixture of economic stagnation and inflation.

The US had debased its own currency by printing extra dollars to finance its war in Vietnam. The US started to come off the gold standard in 1971. Currencies now "floated" against each other and there was the end of international financial stability. Transnational corporations made – and lost – large sums of money by speculating in foreign exchange.

By the end of the 1970s, there was a different economic philosophy emerging among the economists: "economic rationalism". Instead of a government being expected to get involved in the economy, it was expected to keep out of it. Government-controlled businesses were now to be sold off ("privatization"). Governments were now to provide training programmes for unemployed workers but not public works programmes to employ them.

Politicians heeded the advice of economists. The new economic philosophy arrived in Britain in 1979 with the election of the Conservative Margaret Thatcher, in the US in 1980 with Republican Ronald Reagan, in 1983 with the Hawke Australian Labor Government and 1985 in New Zealand with the Lange Labour Government. The party labels were different but the economic thinking was the same: smaller government, less government intervention in the economy, and more reliance on the market.

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