

The 1970s Oil and Energy Crises

Explain the cause(s) or the story behind the recession.

The oil crisis of the 1970s was brought about by 2 specific events occurring in the Middle-east, The Yom-kippur War of 1973 and The Iranian Revolution of 1979. Both events resulted in disruptions of oil supplies from the region which created difficulties for the nations that relied on energy exports from Canada, Australia, New Zealand, The US, Western Europe and Japan. The large shortage in petroleum supplies and suffered high prices. The countries named above were suffered because they were industrial centers in the world economy which had a large demand for cheap oil exports from the Middle-east. In 1970 the Organization of Oil Exporting Countries (OPEC) had been expanding its share in the market. In 1973 OPEC was supplying 56% of the world's oil, up from 47% in 1965. In October of 1973, Egypt and Syria launched an attack against Israel which known as Yom-Kippur War. While The U.S. had rising oil consumption, falling production and increasing imports of oil from OPEC countries. And The U.S. decide to be on side of Israel and it occur a chaos to the US economy. This angered the Arab delegation of OPEC which responded with an embargo of oil sales to the U.S., Canada, the UK, Japan and Netherlands. These shocked the oil market and created a shortage in supply. The nations that were ban from OPEC were able to get oil companies to sell them oil from other sources. It cause sharp rise in prices. The embargo was a shift in global political and economic power now the OPEC countries could influence powerful nations such as the UK and US by manipulating oil supplies. It is important to note that OPEC did and does not have a monopoly over the oil market. In 1973 they only had 56% of the oil market and this led to a large amount of influence it does not allow OPEC to totally control the Market. Because OPEC does not control the whole market they are restricted by what the rest of the market does. The embargoes nations were able to reconfigure their supply lines to keep the oil flowing despite a short-term drop in supply and rise in prices. By May 1974, the U.S. was able to convince Israel to withdraw their troops from the Sinai peninsula and as a result the embargo was lifted and supplies of oil began to flow again.

What happened to GDP (or growth rate), unemployment, and inflation of affected counties?

In the 1973 oil crisis caused a decline in GDP of 4.7% in the United States, 2.5% in Europe and 7% in Japan, and increase in oil prices caused world GDP drop 3%. For unemployment rate I will give an example. The unemployment rate in the US reached 9% but not the peak which is mean that if you met 100 people on the street you will find out that 9 people are unemployed.