Relations with the Middle East and the oil crises

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Relations with the Middle East

Since the founding of the State of Israel in 1948, the Middle East had been a hotbed of ongoing crisis. The Arab States refused to accept the presence of a Jewish State in Palestine. The simmering conflict was re-ignited by the Israeli occupation of Arab territories the Golan Heights, the West Bank and the Sinai Peninsula during the Six Day War in 1967.

The major powers intervened massively, with the United States as Israel's staunch ally and the Soviet Union as defender of the Arab States. The belligerents received enormous quantities of arms from their respective allies. During the 1973 Yom Kippur War, Israel was attacked by Egypt and Syria, which were seeking to recover their occupied territories, but it fought them off successfully.

With the visit to Jerusalem in September 1978 of the President of Egypt, Anwar Sadat, the peace process in the Middle East began to take shape. The Israeli Prime Minister, Menachem Begin, was willing to return the occupied territories in Sinai in exchange for peace. However, the other Arab countries and the Palestine Liberation Organisation (PLO) refused to follow Egypt's example in moving towards peace.

The fall of the Shah of Iran and the establishment of the Islamic Republic in 1979 further destabilised the Gulf region, where the Shah had acted as 'America's policeman'. Tensions increased further with the Soviet invasion of Afghanistan in 1979 and the Iran–Iraq war from 1980 to 1988.

The conflicts between Israel and the Arab States and the fall of the Shah triggered two oil crises which had a profound impact on the Western economies, in particular those of Europe.

The oil crisis

In order to force the Western countries to put pressure on Israel during the Yom Kippur War, the Arab oil-producing countries cut oil exports to Europe and America. The countries which were members of the Organisation of Petroleum Exporting Countries (OPEC), supported by the Soviets, thus forced a sharp rise in the price of crude oil, which led to a global energy crisis. Oil became a weapon in the international struggle against Israel and its allies. Production was cut and embargo measures imposed on those countries deemed to be unfriendly, countries which directly depended on outside sources for almost two thirds of their imports. From October to December 1973, the price of a barrel of crude oil increased fivefold. That was the first oil crisis. In sparking off a broader economic crisis, it impacted on the Western economies in two ways: it severely exacerbated inflationary trends (the annual inflation rate in the UK soared to 20 %), and it siphoned off part of the wealth of the oil-importing countries, causing an enormous budget deficit.

From the early 1960s, oil consumption had been increasing steadily, while consumption of coal and natural gas had declined. Between 1950 and 1972, it almost doubled to account for over 60 % of total energy consumption. The cost of this was made even heavier by the oil crisis from October 1973 onwards. That aggravated the economic crisis affecting Western Europe, the first symptom of which was a recession that put a sudden stop to the growth of the 'thirty glorious years' that followed the Second World War. Industrial production declined, impacting on traditional economic sectors including textiles, shipbuilding and steel. International trade crumbled, and bankruptcies became regular occurrences.

The immediate consequence of this depression and the ensuing austerity policy was a huge rise in unemployment in Europe, a trend which continued with the second oil crisis which struck in 1979. Not all countries, of course, were equally affected: some managed better than others. Belgium and the United Kingdom, whose economies were traditionally based on industry, had more difficulty in adapting than Luxembourg, which avoided mass unemployment through close cooperation between management and labour and the provision of state subsidies to the steel industry, financed by tax revenue from the banking sector.