IMPACT OF ENERGY ON ECONOMY

I. Short-run:
A. Domestic

1. Slowdown coming anyway.
   b. Reached capacity faster than expected.
      1) employment  2) plant & equipment.
      1) reduced real income.
      2) deteriorating consumer sentiment.

2. Embargo - two interpretations.
   Great uncertainty: Administration strategy: consumer saves, sustain production.
   a. Rise in unemployment due to shortage layoffs (direct/indirect).
      Price increases worsened.
      Policy implication: don't expand credit.
   b. Problem: compounded uncertainty will dampen consumer purchases - more like traditional recession.
      Policy - ease.
   c. Undeniable effect: increased inflation.
      1) How can credit policy ease. Special factors that will disappear.

3. Lifting of Embargo - effects.
      Output not more than pre-Sept. ie., imports
      2 mil. bb1s/day increase. (not up to trend)
      Consumer pays more (average cost of petroleum +7%).
Good news/bad news.

b. Results: Autos $+1/2\text{ mil. (10 mil. vs. 11}\frac{1}{2}\text{ mil.)}$
Housing $+100,000 \text{ (1.7 vs. 2)}$
Plt. & Equip. $
$
Not much effect on real growth this year because:

Prices pushed up faster w/ high cost imported oil.
(Like excise tax - takes from high spenders & transfers
to low spenders)

c. Outlook

Slow growth.

Slowing price increases.

Rising unemployment

But stronger than a month ago.

Ninth District insulted.

B. International.

Risk that international markets can't handle transfers of
funds (50 billion)

Not Great.

Risk that each country reacts to save own skin - real but diminishing.
Risk of starvation in LDC's - real.

II. Long-run:

Crisis real?: question in short-run; pretty clear in long run.

1. More government involvement in economic life - R&D, Allocation,
Expropriation.


3. Slower growth in productivity.

Frustration of expectation of rising standard of living.

4. Rest of world can't follow Western pattern of economic development.