

IMPACT OF ENERGY ON ECONOMY

I. Short-run:

A. Domestic

1. Slowdown coming anyway.

- a. Economy expanding faster than sustainable in I 73.
- b. Reached capacity faster than expected.
 - 1) employment
 - 2) plant & equipment.
- c. Price increases - food & raw materials - outpacing wages.
 - 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.

- a. Assumptions: M.E. price remains \$10 bbl.

Output not more than pre-Sept. ie., imports
2 mil. bbls/day increase. (not up to trend)
Consumer pays more (average cost of petroleum +7%).

Good news/bad news.

b. Results: Autos	+1/2 mil.	(10 mil. vs. 11½ mil.)
Housing	+100,000	(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.
2. More potential for international strife - sectional strife - me first.
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.