

## Inflation

# The Worst Month Since '51

WASHINGTON—During March, Government reports disclosed last week, American consumers experienced the worst rate of inflation in nearly a quarter century—a major worsening of an illness that had shown distinct improvement in 1971 and 1972.

But at the same time, as other reports revealed, the boom in the economy—a major cause of the rising prices—produced some good news too. First the bad news, most of it signaled in advance by earlier statistics:

- Dominated once again by food prices, the Consumer Price Index rose by eight-tenths of 1 per cent in March, bringing the annual inflation rate for the first quarter to 8.8 per cent—the highest since the Korean War in 1951. Food prices alone rose in the first quarter at the extraordinary

annual rate of 30 per cent. President Nixon's goal is an inflation rate for consumer prices as a whole of only 2.5 per cent by the end of the year, though he had set no specific goal for the first quarter.

- Another measure of inflation—the price index for the Gross National Product—rose at a 6 per cent annual rate in the first quarter, double last year's inflation.

While the shift to the less mandatory Phase 3 system of price and wage controls undoubtedly played a part in the sudden jump in the inflation rate, the underlying cause seems to be the boom, which has now brought the nation's output close to its capacity, of plant if not of labor.

But if booms are inflationary, they also have their benefits:

- Consumer incomes on an annual basis crossed the trillion-dollar mark in March for the first time, up an enormous \$90-billion, 10 per cent, from a year earlier. People clearly have the money to pay the higher prices, and retail sales in the first quarter run about 15 per cent ahead of last year.

- The G.N.P. report showed that the nation's output, after adjusting for higher prices, showed "real" growth at a rate of 8 per cent in the first quarter, the same as in the fourth

quarter and about double the "normal" growth rate in prosperous times. The Government's aim is to slow this boom to about a 4 per cent growth rate by the end of the year, thus easing the inflationary strain.

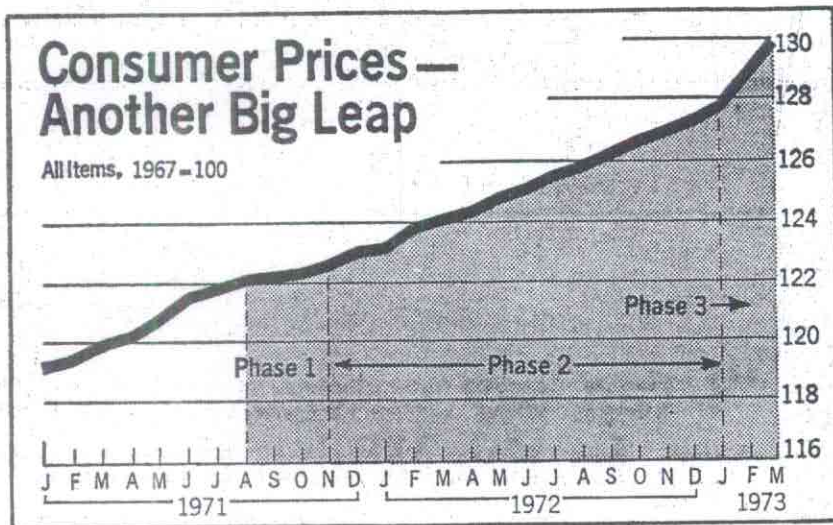
- Corporate profits for the first quarter were glowing, with company after company reporting earnings at a record for the period. As one example, Chrysler's earnings rose to a record for any quarter—\$89.8-million, more than double the \$35.8-million of the first quarter last year.

- There were 2.6 million more Americans with jobs in March than a year earlier. And the unemployment rate was down to 5 per cent of the labor force compared to 6 per cent in March a year ago.

None of this killed the pain of inflation, however. The "real" take-home earnings of the average worker fell slightly in March and were no higher than a year earlier, as the rise in prices and Social Security taxes just matched the increase in wages.

After pointing out that President Nixon in his Inaugural Address had urged Americans to "help themselves," George Meany, head of the A.F.L.-C.I.O., said, "It is obvious that this is what workers and their unions are going to be forced to do at the collec-

# The Nation



...tive bargaining table." This was a clear threat to the hoped-for moderation in wage settlements this year.

What was the Government doing about the situation? The White House took one action. President Nixon supplied the details of his previously disclosed plan to sell nearly all of the nation's stockpile of "critical and strategic" materials, with the explicit aim of checking the rise in prices of many metals and some other com-

modities like natural rubber.

The President said he based his stockpile decision on changed world circumstances and changed technology, meaning that he found there to be no longer a need for materials sufficient to supply the nation for a three-year conventional war.

He added that his aim was to sell \$6-billion of the \$6.7-billion current value of the stockpile of 91 materials, though it was made clear that the

sales would take many years for some commodities.

In Congress there was confusion, as has been the case from the beginning, on the legislation to extend the President's powers, expiring April 30, to control wages, prices and rents.

The House decisively defeated a plan of the Democratic leadership for a price rollback to the levels of March 16. Eventually, Senate-House conferees agreed on an extension of the President's general powers but with a few provisions—chiefly a disclosure requirement for large corporations that raise their prices—strongly opposed by Republicans.

With the threat that the conference agreement might be rejected, at least in the House, Congress adjourned without taking final action. Thus everything remains uncertain until Congress returns on the precise day that the control authority expires—April 30.

Despite many rumors, there was little firm evidence that Mr. Nixon was contemplating a dramatic move on the controls front. Most officials kept insisting that the worst, particularly on food prices, was over and that a new freeze would do more harm than good in conditions like the present, with booming demand and limits on supply. —EDWIN L. DALE Jr.

## Energy

# Prices Up, Supplies Down

WASHINGTON—President Nixon issued two energy "messages" last week. The formal one, addressed to Congress, outlined legislative proposals to increase production of fuels and electricity.

The third paragraph of that 10,000-word document was a "message" to the American people. "In the years immediately ahead, we must face up the possibility of occasional energy shortages and some increase in energy prices," the President said.

Neither Mr. Nixon nor his energy advisers could tell the public what it most wanted to know: whether there would be brownouts this summer, how high gasoline prices are likely to go, whether motorists will really have trouble finding gasoline, whether next winter will bring fresh shortages of heating oil, how much more householders will have to pay to heat with natural gas.

Although he argued that no "crisis" now exists, Mr. Nixon conceded that there could be "occasional energy shortages." The United States is consuming more energy than it produces, with imports of oil making up the difference.

Present trends point to a wider gap in the next few years. Demand is growing as the labor force and industry expand. Rising incomes mean that more people want air-conditioned cars, second and third cars, double

ovens in the kitchen (self-cleaning ones, at that), larger and centrally air-conditioned homes. Automation, as industry tries to cut costs by substituting machines for men, substitutes fuel-based energy for human energy.

Domestic supplies, meanwhile, have stopped growing, although the country has huge untapped coal deposits and geologists believe that vast pools of oil and natural gas lie offshore beneath the continental shelf.

For the short-term, hopeful of minimizing economic disruptions and public irritation, the President ended as of May 1 the controversial, 14-year-old mandatory quotas that have limited the volume of oil and gasoline imports. In so doing, he reversed his 1970 refusal to take the advice of a cabinet task force that quotas be scrapped. Opening the import gates, however, is viewed by the Administration as a distasteful expedient. It means more strain on the balance of payments.

The additional oil can come only from the Middle East, especially Saudi Arabia, and this poses diplomatic problems. Even as the energy message was getting its ninth and final revision, Saudi Arabia's Minister of Petroleum, Sheik Zaki Yamani, was telling Secretary of State William P. Rogers last Monday that his country would find it difficult to increase oil production unless Washington leans harder on Israel to relinquish territory acquired in the 1967 six-day war.

For the long-term, the President opted for a strategy intended to move the United States back towards its traditional energy self-sufficiency. That condition may be impossible to achieve completely, but the Nixon Administration seems to believe that a great power must not be dependent on foreigners lest it lose its freedom of action.

Some of the President's key proposals to Congress:

- End Federal regulation of well-

head prices of natural gas. "The price paid to producers must increase," the President said, "to stimulate exploration and encourage some industrial users to stop burning 'America's premium fuel.'"

- Authorize Federal licenses for deep-water supertanker terminals offshore. The President argued that developing such facilities was necessary to minimize the costs, economic and environmental, of large additional oil imports. "We can expect considerably less pollution if we use fewer but larger tankers," he said.

- Give the oil and gas industry a further tax concession, in addition to the depletion allowance, in the form of an investment credit for exploratory drilling. A driller would be allowed to deduct from his tax bill 7 per cent of the cost of a dry hole, 12 per cent of the cost of a discovery well.

- Write a legislative license, previously requested by the President, for the stalled pipeline that would bring oil from the North Slope fields of Alaska and pass an act, also previously requested, that would shorten delays in licensing new nuclear power stations.

As a major companion step to stimulate domestic production of oil and natural gas, the President announced plans to triple offshore leasing for exploration by 1979.

Environment is a central issue in the energy debate, and the President's message discussed it in several contexts. To increase use of coal, "our most abundant and least costly domestic source of energy," Mr. Nixon urged the states to defer beyond 1974 application of more stringent air-quality standards pending development of ways to remove sulphur from coal stack gases. To apply stricter standards in 1975, he said, would discourage the burning of coal and so jeopardize 26,000 mining jobs and add \$1.5-billion to the annual cost of importing oil.

He sought to allay the fears of coastal communities and fishermen about the effects of offshore drilling by offering this assurance: "New techniques, new regulations and standards and new surveillance capabilities enable us to reduce and control environmental dangers substantially."

But there was no doubt that on balance he was sympathetic to the complaints of the energy industries that the environmental movement has gone too far. For example, Mr. Nixon deplored the "unreasonable delays" that have slowed development of nuclear power stations and said he would seek ways to speed up Atomic Energy Commission licensing procedures.

However, while the White House was thus signaling what could become an industry-government counteroffensive, the environmentalists found new support across town at the Supreme Court. The Justices unanimously upheld a tough Florida law that made drillers, shippers and terminal operators liable for oil-spill damages. The High Court ruled that the states could regulate such matters, provided that their requirements did not present "a clear conflict with the Federal law."

Mr. Nixon suggested in his message that citizens could help with the fuel shortages. "We as a nation must develop a national energy conservation ethic," he said. He urged industry to use energy more efficiently and to make its products more energy-efficient. He announced the Government would sponsor "a voluntary system of energy efficiency labels for major home appliances." He announced creation of a Office of Energy Conservation within the Interior Department. Citizens, he said, can turn out the lights, tune up their cars and reduce their use of air conditioning and heating.

The energy industries have blamed the present shortages partly on obstruction by environmentalists and partly on prices that are too low, especially for natural gas. The industry argues that the Federal Power Commission, by keeping gas prices artificially low, has discouraged exploration for new supplies and encouraged industry to burn gas instead of more expensive oil.

Gas shortages in turn have contributed to the demand for oil and last winter's heating-oil shortages.

Critics contend that if deregulation occurs, higher prices would be a certainty and the discovery of greater reserves of oil and gas only a possibility. While almost everyone agrees that there is an "energy crisis" of some dimension, some critics suggest that the industry has understated reserves as part of a strategy to create an artificial shortage and push prices up. Deregulation, the critics contend, would give producers windfall profits at the expense of consumers.

Congress, on its way to the grass roots for the Easter recess, expressed little reaction to the energy message. The issues trouble many members because of their complexity and because they require politically risky choices. The complexity involves such issues as whether a vote for the environment is a vote for energy shortages. The political impact comes not simply from the energy industries' well-known lobbying activities but also from their thousands of employes and installations spread across the country.

Against this background, Washington observers believe that Mr. Nixon probably can get his supertanker-terminal bill, maybe even the Alaska pipeline (though not without another court challenge by environmentalists in what has become for both sides a holy war). The President might even get a natural gas deregulation bill, if not exactly as he proposed.

Whatever the fate of this particular proposal, a general rise in energy prices over the next several years seems to be inevitable. Energy consumption is soaring, at least in the industrial countries. For Americans, the era of abundant, cheap fuels and power—one of the mainsprings of this country's rapid, robust economic development—is ending.

In the international arena, tension between the relatively underdeveloped, oil producing nations and the rich, industrialized, oil-consuming giants—North America, Europe, Japan—seems likely to increase.

The energy debate has just begun.

—EDWARD COWAN

# What for Tomorrow's Lamps?

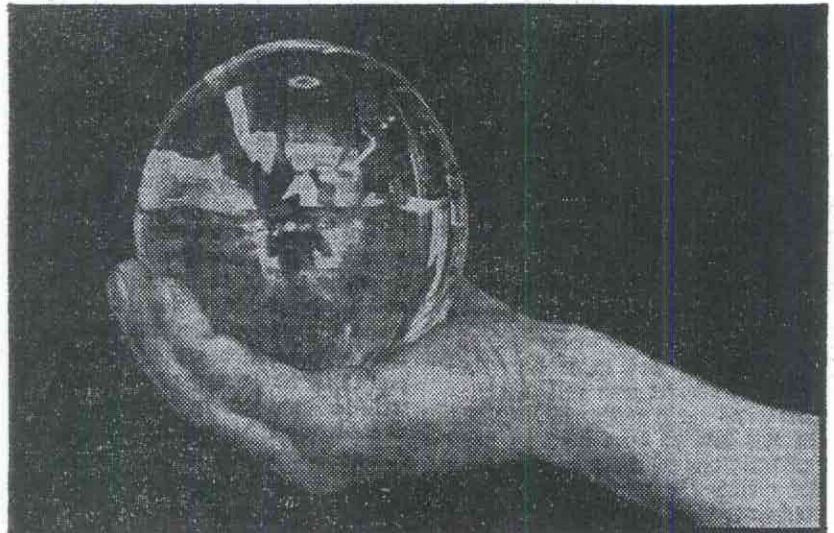
"What we are doing is shifting from the age of oil to another energy age," an oil industry spokesman said the other day. "Historically speaking, transition periods are very interesting but living through them may not be so much fun."

Blackouts, brownouts and fuel shortages, for example—and it may be decades before the United States actually ceases to be so dependent on fossil fuels. Meanwhile, experts are eyeing some long-range alternatives:

**GEOTHERMAL ENERGY:** Iceland, Italy and New Zealand have been harnessing underground hot water and steam to provide power for years. Now a National Science Foundation panel headed by former Interior Secretary Walter J. Hickel wants the United States to spend \$684-million to develop similar projects. The only developed geothermal field in the United States is The Geysers near San Francisco but some experts say 59 million acres of geothermal land in 14 Western states, by the year 2000, could generate electricity equivalent to America's present output.

**SOLAR POWER:** The potential of the sun as an energy source is tremendous; harnessing it is another matter. One spectacular approach has been suggested by Dr. Peter Glaser of the Arthur D. Little Inc., think-factory. He wants to place a 25-square-mile panel of photo-voltaic cells—devices made of silicon that convert sunlight to electricity—in stationary orbit 22,000 miles in space. The cells would collect the sunlight energy, convert it into an electric current and then beam it back to a giant, 36-square-mile antenna on earth. Dr. Glaser estimates that a \$20-billion investment in his project would provide 10 million kilowatts of electricity.

**SEA POWER:** In early Brooklyn, the Dutch burghers erected dams which were opened to admit the flowing tide and closed at the ebb. The dammed-up water then was slowly released through chutes to turn water mills. For decades residents of Maine and the neighboring Canadian provinces have dreamed of similar but much larger schemes to exploit the great tides of the Bay of Fundy. But



Zvi Lowenthal

study after study has shown that the investment would be too large for the return. In France, however, a tidal power plant is in operation near St. Malo. A more exotic use of ocean power would take advantage of the fact that in the tropics surface seawater never drops below 82 degrees Fahrenheit, while deep currents often are as cold as 35 degrees. By forcing the hot surface water down into the cold deep water and making use of a heat exchanger system, it would be possible to drive turbines to develop electricity. Such a system was tested off Cuba in 1929 but little else has been done since.

**NUCLEAR POWER:** Twenty-nine commercial nuclear power plants are in operation in the United States but to the scientists these are the Model T Fords of the industry. The experts look to two developments to provide really significant nuclear power supplies.

The first uses the so-called fast-breeder reactor as its basic component. Conventional nuclear plants use as their fuel uranium-235, a relatively scarce variety. The more common uranium-238 is used as a nonfissionable part of the process. In a breeder reactor the splitting of the 235 atoms

is accelerated to react with the 238, in the process producing 14 atoms of plutonium for each 10 atoms of fuel used. The importance of the plutonium is that it can be used as a substitute for the 235. But there are hitches: Plutonium is the stuff of which atom bombs are made. And wastes from the breeder can be dangerous to humans for up to 200,000 years.

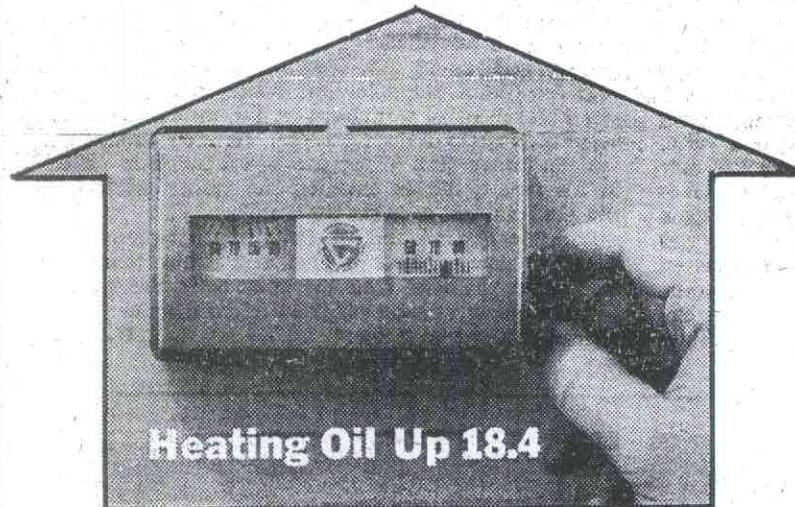
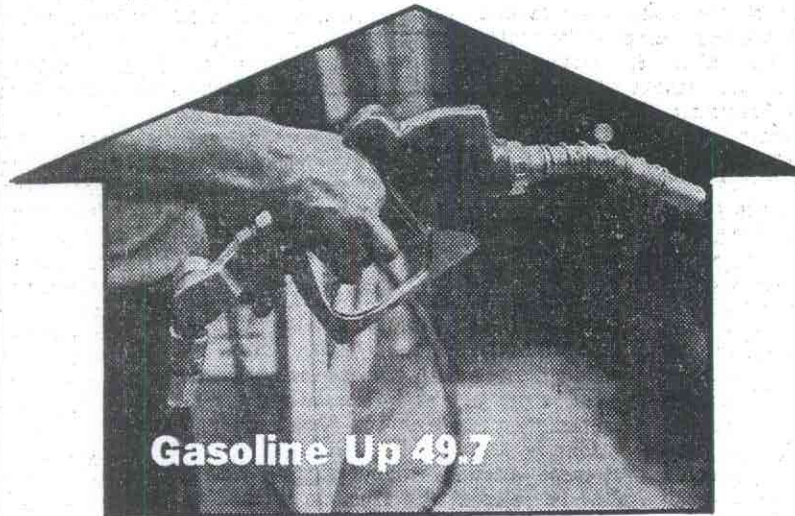
The second area of nuclear research involves taming the power of the hydrogen bomb—thermonuclear (fusion) power. But even the most optimistic scientists think this is decades—perhaps a century—away.

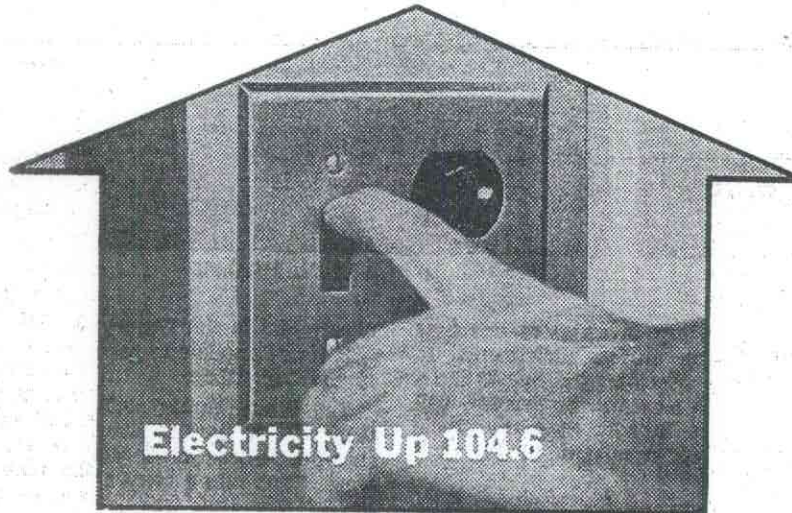
**OTHER POWER SOURCES:** Coal is the most abundant of the fossil fuels and several projects are seeking to make more efficient use of the enormous deposits in the United States. A principal approach is to use steam to react with the carbon compounds in coal to make a hydrogen-rich commercial gas.

The United States also has more than 500 billion barrels of potential oil supply—equal to roughly 40 years of the present domestic demand—in the shale beds of the Green River area of Colorado, Utah and Wyoming. But there are enormous environmental problems to be overcome before the shale can be commercially mined.

# Power Hungry

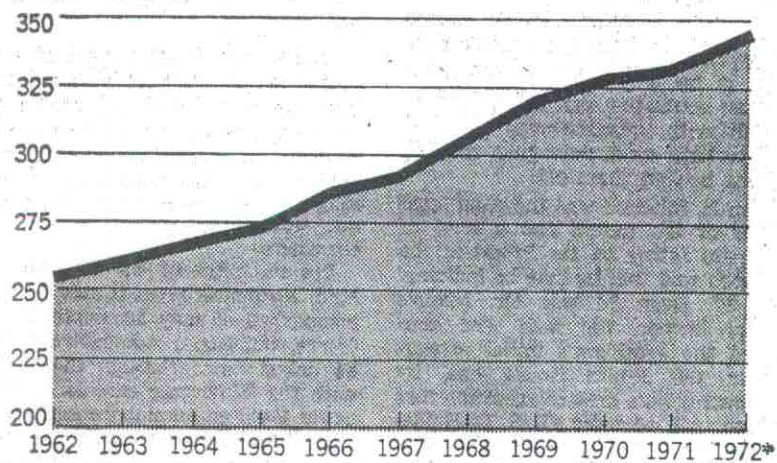
The difference a decade makes: Percentage increases in U.S. consumption of major energy sources between 1962 and 1972.





### Per Capita Energy Consumption in the U.S.

Millions of B. T. U.'s



Source: Department of the Interior

\*Preliminary