WXPost

Joseph Alsop

A Grim Economic Forecast

A fundamental truth has emerged from the disputes at the Washington conference on energy. Something unpleasantly resembling the world economic breakdown that began in 1929 can all too easily result from the worldwide energy crisis. It may be a cushioned breakdown, less agonizing than the great depression. But it is going to be mighty hard to avoid.

To see why this is the case, you only need to study a grim little paper entitled "Implications of Exploding World Oil Costs," which was widely circulated at the Washington meeting. The paper was prepared by Walter J. Levy. He is a petroleum economist, an official consultant to the State Department, and a man genuinely and frequently consulted by Secretary of State Henry A. Kissinger.

The thrust of Walter Levy's paper is bleakly simple. The paper passes over in silence the shortages of gas, threats of rationing and other unaccustomed miseries that most of us regard as "the energy crisis." Instead, the Levy paper concentrates exclusively on the effects of vastly increased oil prices on the economies of the great industrial nations outside the Communist bloc.

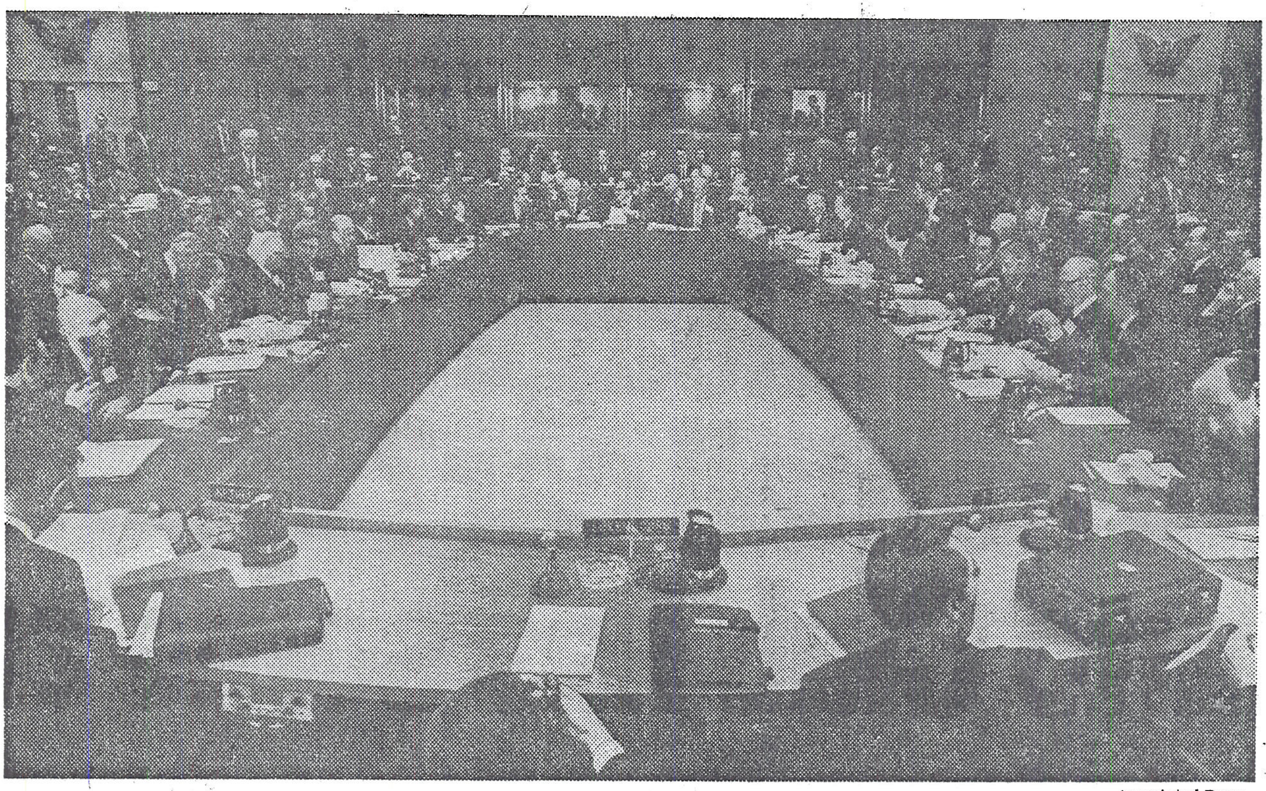
You get an idea of the explosive power of the "exploding world oil costs" by glancing through just a few of Walter Levy's figures. To begin with, the "indicated" level of U.S. 1974 oil imports appears to be $14 billion above the level for 1973. This could give the U.S. a 1974 trade deficit of $13 billion—or just a bit more than our existing reserves of gold and foreign exchange.

For Japan, again, the "indicated" level of 1974 oil imports appears to be about $11 billion above the 1973 level —or almost the exact equivalent of Japan's entire gold and foreign exchange reserves. For the Western European countries, yet again, the rise in oil costs is likely to be about $35 billion or almost one half of Western Europe's existing gold and foreign exchange reserves.

Within this larger picture, there are also some ultra-soft spots, of just the type that cause chain reactions of trouble. Great Britain, for instance, can well have a 1974 trade deficit of $7 billion, mainly on account of increased energy costs. This is equivalent to a U.S. trade deficit of about $50 billion, because of the difference in size of the two economies.

Naturally, these staggering and terrifying statistics are not exact projections. They are rough measurements. They are conservative measurements, at least in one way, for they assume that 1974 energy consumption will be held to the rates of two years ago. But they do not—in fact cannot—take account of possible changes in crude oil costs during the rest of 1974. And the crude oil price is currently drifting lower.

Even if you allow for this downward drift in the price of crude oil, however, "staggering" and "terrifying" are still rather mild adjectives to apply to the statistics in Walter Levy's paper. Unless a miracle intervenes, the statistics



Associated Press

The opening session of the Washington conference on energy.

inevitably make one main prediction. Every major industrial nation outside the Communist bloc will be running a whopping trade deficit by the end of 1974.

Americans used to regard this kind of difficulty with the balance of payments as no worse than a bad cold—until we, too, began to run persistent trade deficits. Whereupon the U.S. dollar was subjected to no less than three successive devaluations, losing a startling share of its old buying power in the process.

Generalized and massive trade deficits, afflicting all the major industrial nations, are also quite without precedent. At least in former times, some of the rich nations automatically ran surpluses, whenever others ran deficits. We have no past experience, to permit predictions about an all-embracing epidemic of trade deficits.

In contrast, there is plenty of past experience to show what dire strains are produced by individual trade deficits that begin to seem unmanageable. Even one ultra-soft spot can cause a major crisis, in truth; and besides Great Britain, Italy will probably turn up in this unhappy category.

Add, further, that what people see ahead is already leading to a desperately costly international game of beggar-your-neighbor. This has showed up, so far, in the frantic efforts by the French and others to make extremely expensive bi-lateral deals with the oil-producing countries. Later, however, beggar-your-neighbor will probably take a good many other most unpleasant forms.

Add, finally, that the existing financial structures of the Western powers and Japan appear to be quite unprepared to withstand the wholly novel strains that seem to lie ahead. When you have completed these gloomy additions, you then find that we have apparently entered a wholly new and quite uncharted phase of world affairs.