Newsweek

The Fuel Crisis—Nixon Acts

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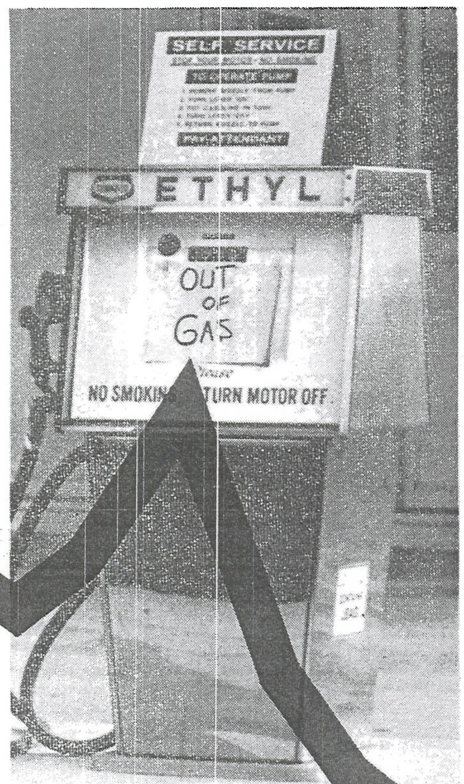
Millions of Americans last week got their first personal exposure to the inconveniences of the energy squeeze. Temperatures were lowered in factories and offices. On the nation's highways, thousands of service stations closed on Thanksgiving Day and countless motorists ran out of gas. But government officials and businessmen were already looking beyond such relatively minor nuisances to what might happen if the Arab oil embargo continues much longer. What they saw was disquieting: the growing chance of a recession early next year, with rising unemployment and inflation.

As public concern over the problem intensified, President Nixon ended weeks of indecision. After meeting with domestic adviser Melvin Laird and energy czar John Love, Mr. Nixon made a weekend TV address outlining "tough, strong" action to deal with shortages. He:

- Banned all gas sales each weekend from between the hours of 9 p.m. Saturday and midnight Sunday. This requires new legislation, which the President expects soon. Pending that, he asked voluntary compliance.
- Ordered a 15 per cent cutback in home heating-oil deliveries by distributors. The over-all aim is to reduce the use of heating oil in homes by 15 per cent, in commercial buildings by 25 per cent and in industry by 10 per cent. Allocations of gas from refiners to wholesalers were cut back in an effort to get refiners to concentrate more on heating and fuel oil.
- Fixed a nationwide 50-mph speed limit on cars and a 55-mph maximum on buses and trucks. This requires legislation.
- Suggested a cut of 15 per cent in the use of jet fuel below 1972 levels and a cut in private flying.
- Forbade all ornamental outdoor lighting around the nation's homes, meaning no *al fresco* Christmas lights this year, and all decorative and display lighting at commercial establishments—pulling the plug on everything from brightly lit store windows to outdoor advertising signs.

The package didn't contain any surprises, but it was moderately tough—and it marked Mr. Nixon's retreat from volunteerism to direct action in dealing with the crisis. The ban on Sunday gas sales won't be popular nor, during this Christmas season, will be the blacking out of ornamental lighting displays. Still, most of Mr. Nixon's advisers had been recommending tougher measures—for example, forbidding Sunday driving rather than just gas sales and ordering a big boost in the gas tax to discourage demand.

Will the new Nixon package do the job? The steps certainly will help, and



Don McKay

Trouble on Wall St. and at the pump

the program may have come in time to head off what looked like developing chaos. But Mr. Nixon acted belatedly and his intervention probably won't prevent significant disruptions in the economy because of distortions that have already occurred and continuing shortages. In practical terms, some of the measures are cosmetic. Great numbers of gas stations are already closing on Sunday. Many states have reduced the speed limit on their highways, and outdoor lighting has been dimmed across the U.S.

But the fact that the President finally decided to act may impart a psychological lift to consumers and businessmen who were growing increasingly depressed over the debilitating effects of the fuel shortage. Wall Street was totally demoralized, and prices last week took their biggest one-day tumble in eleven years as the market continued a steep plunge that began after the Arab nations embargoed oil shipments to the U.S. Makers of everything from steel to roadside hamburgers spoke of the prospects of cutbacks in production and jobs—among them was General Motors, the nation's largest industrial enterprise. GM announced that it would close sixteen plants for a week because of a sales slump at least partly caused by the energy crisis. Four airlines agreed to cut their round-trip flights between London and New York by a third because of jet-fuel shortages, and all the international carriers said they would see a 6 per cent fare boost because of "drastic increases" in fuel prices.

In Washington, Interior Secretary Rogers Morton warned that the country might have to endure periodic "brownouts"—cutbacks in voltage—or "rolling blackouts" in which certain neighborhoods or towns would be completely without power for limited periods and on a rotating basis. Secretary of State Henry Kissinger spoke openly but vaguely of possible retaliation against the boycotting Arab states. Most people thought he meant economic countermeasures, but some people spoke wildly of military action. For its part, Saudi Arabia defiantly said it could take counter-retaliatory steps—including destroying some of its own oil fields in the event of an invasion to deny fuel to the West. In the midst of this, the Senate passed an emergency bill giving the President near wartime powers over energy supplies.

While they waited for signs of decisive leadership from the Administration, state and local governments and private citizens across the country made their own adjustments to the shortage.

In New England, the governors' conference announced that voltage in their six-state area would be cut by 5 per cent between 4 and 8 p.m. each day. Illinois set up a "fuel hot line" and reported an average of 125 calls each day from citizens and businessmen with either a problem or a question. And Milwaukee councilmen got some publicity by holding a meeting by candlelight.

A number of school districts canceled student trips to save gasoline. In Austin, Texas, a 500-unit apartment complex offered a free keg of beer each month to the tenant using the least electricity. And one Vermonter bought a cast-iron stove for additional heating, placed it on

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a wood floor in his home—and burned the place down.

But really meaningful action to cope with the fuel shortage could only come from the Federal government—and for weeks the White House apparatus was in disarray, with fierce infighting between two factions. Energy czar John Love and Interior Secretary Morton had campaigned for fuel rationing. They were stiffly opposed by the "free market" faction led by Treasury Secretary George Shultz, chairman Herbert Stein of the Council of Economic Advisers and Roy Ash, chief of the Office of Management and Budget. Mr. Nixon opted for voluntary fuel conservation.

Grim Reading

Then last week, his aides came up with some new estimates that seem to have forced him to change his approach. The OMB got together the representatives of ten public and private organizations—including Treasury, Love's energy office, the CEA and the National Petroleum Council—and they agreed on a composite energy forecast that Administration planners could use to make decisions. The forecast made grim reading.

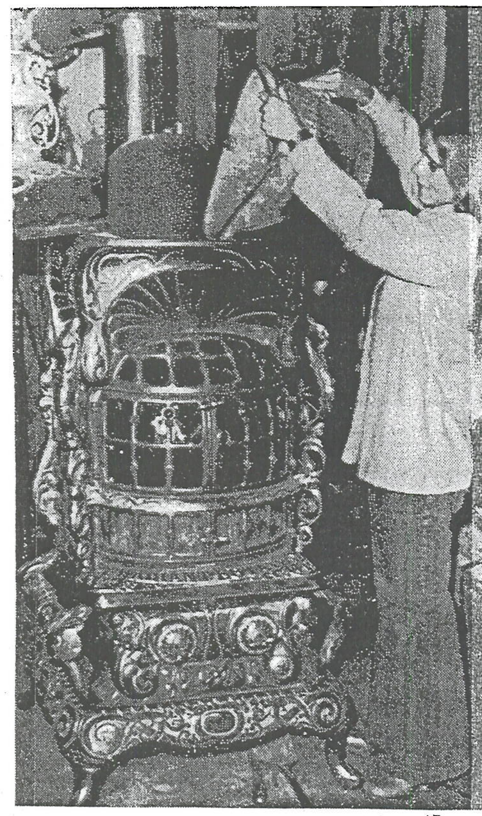
It predicted that the U.S. would suffer a daily shortfall of 1.4 million barrels of oil, or 10 per cent of demand, until the end of the year, NEWSWEEK's James Bishop Jr. learned. The shortage would then escalate to a whopping 3.4 million barrels a day, or 17 per cent, during the first quarter of 1974.

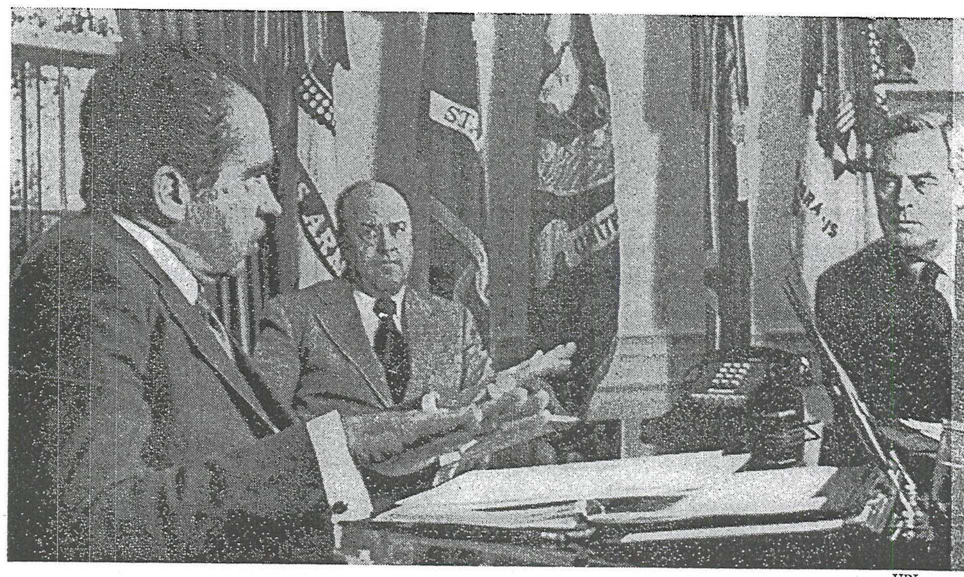
The most critical shortage was forecast in residual oil, used by utilities and factories. Suppliers in New England would be down to "minimum operable inventories" next week. That is a dangerous level, never reached before in peacetime. Once inventories fall below the minimum level, some customers simply have to do without. After shortages hit New England, the OMB group predicted, they would quickly spread down the East Coast and then to the Midwest.

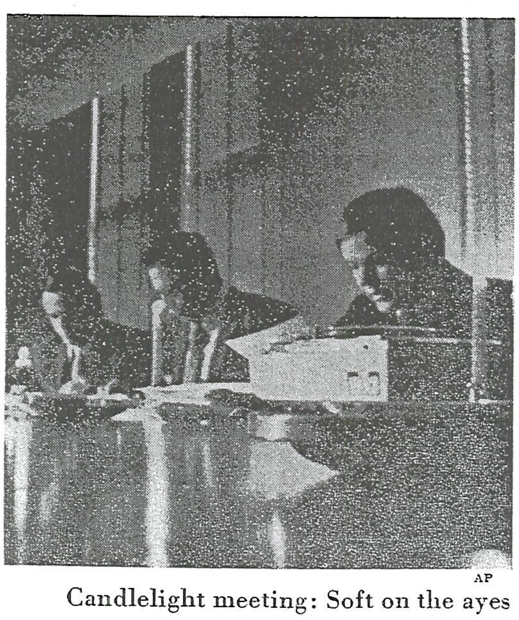
The experts identified distillates—which are used for home heating, jet and diesel fuel—as the second most pressing problem. The nation would be down to minimum inventories at the end of January, the OMB group said. And gasoline inventories, the third-ranking problem, would get down to the danger level a week later.

To avoid a fuel catastrophe, the forecast concluded, it was necessary to cut gasoline used by autos by 30 per cent; since a great deal of driving is essential, that would mean cutting back pleasure driving by more than half to get an overall 30 per cent reduction. Other necessary savings, according to the OMB group, included a 15 per cent cut in the use of home heating oil, a 20 per cent cutback in fuel consumed by utilities and a 20 per cent reduction in the use of aviation fuel.

The forecast was based on two assumptions. One was that the winter would be only moderately cold; anything worse would aggravate the economic problem. And so far, the nation is enjoying a bit of luck. Since the heating season began Oct. 1, the average temperature has been 20 degrees warmer than normal. The other OMB assumption was that the Arabs would restore shipments to Europe and Japan by the end of the year.


AP
Coaling up: Hedge against rationing


UPI
Nixon, Laird, Love: After long delays, a moderately tough program


AP
Candlelight meeting: Soft on the ayes

The European and Japanese part of the worldwide oil equation is, of course, critical to the U.S. Not only would they be energetic rivals in the scramble for alternative supplies if the Arab squeeze continues, but if recessions develop in Europe and Japan because of fuel shortages, U.S. exports would be cut sharply.

But the President's new program will, for the time being at least, ease the situation somewhat in the U.S. One of the most important aspects is the decision to allocate gasoline in the hope of getting refineries to shift their runs away from gas and into heating and residual oils. If this works, it will provide more power and heat for New Englanders this winter and more fuel oil for factories that might otherwise have to cut back operations.

This, however, would then exacerbate the gasoline shortage that now looks likely for next spring. By March, some experts say, there will be a huge gasoline shortfall of 1.5 million barrels a day. This, in turn, would all but dictate a move that the President has so far vigorously resisted: rationing in some form. It might be done with coupons, by imposing a 30-cents-a-gallon tax or by letting prices rise in the open market. However it arrives, many oil experts insist that rationing is inevitable next spring because the President, by not choosing to present the country with an even stronger program today, is running a risk of more severe consequences next year.