

Perils of the 1980s

The start of a new decade traditionally provides a convenient point for assessments of the economic outlook for the longer-term future. Since World War II, such projections typically have been characterized by a spirit of optimism. Output usually was expected to rise steadily with accompanying increases in productivity and consumption. In early 1980, however, confident optimism is a rare commodity. Sanguine expectations of perpetual economic growth and rising living standards have given way to apprehension that the existing level of consumption cannot be maintained.

Concern with a cyclical decline bears less heavily upon consumers and businessmen than in the past. The second half of the decade of the 1970s was a period of economic expansion, one of the longest on record. Now, most observers believe that a recession has begun. Typically, they expect the decline to be short and shallow with upward forces reasserted before year-end. Income supports will help keep spending at a high level. If a more serious adjustment appears to be developing, most people believe that the federal government will move speedily to cut tax rates and accelerate outlays, and that the Federal Reserve System will ease the supply of money and credit.

Since World War II, fears of the recurrence of a 1929-33 model depression have been gradually put to rest. Along with other industrialized nations, the United States has learned that high levels of consumption can be supported by maintaining consumer buying power through stimulatory monetary and fiscal policy. Unfortunately, a satisfactory program for containing the inflationary consequences of such policies has eluded all major nations.

Concern with inflation is worldwide. Frenzied efforts of individuals to maintain the real worth of their assets are reflected in wild

fluctuations in the prices of gold and silver. The number of people speculating in precious metals, however, is small, compared to the number who have purchased houses and farmland at prices that cannot be justified by the revenues currently earned by these properties. Efforts to "hedge against inflation" show a deep distrust in the ability of the nation to deal with its problems. Such efforts add to price pressures by diverting resources from productive to speculative channels.

The primary constraint on supply is the availability of the energy that is essential for agriculture, manufacturing, mining, transportation, space heating, and air conditioning—in fact, virtually any human activity. Oil provides about half of U.S. energy, and almost half of this oil is imported. Prices of imported oil have doubled in the past year, a development quite unforeseen. Oil imports are the cause of the now-chronic deficit in the U.S. balance of international trade. Downward pressures on the value of the dollar abroad complicate the situation. Attempts to lessen U.S. dependence on oil have been hampered by restrictions on the construction and operation of power plants, the mining and burning of coal, and by other environmentalist regulations. Energy will remain the basic constraint determining the level of output and consumption. Monetary and fiscal policy can do little to ameliorate this situation.

The inflation and energy questions are closely related to the widening crisis in the Middle East. The State of the Union address called for substantial increases in military outlays to meet the threat of further Russian encroachments in this vital area. Congress and the people seem to approve. Because the United States has little in the way of surplus materials, facilities, or trained workers, the military buildup may preempt resources destined for consumption or private investment, and alter economic forecasts.