NEW WORLD ECONOMY

newsletter

No area or nation of the world today remains isolated from the global economic patterns that have developed in recent years; although America still enjoys the world's largest and strongest industrial system, both present conditions and future prospects are now much affected by current events in what many observers are calling a new "world economy." This newsletter is specially prepared for *The American Economic Foundation* from reliable and well-informed sources. (It is *not* intended as an economic forecast.)

May 15, 1974

... THE FUTURE OF ENERGY ... 'SLUMPFLATION' ... BAD NEWS ABOUT STOCKS ...

WHAT ARE THE LONG-RANGE RESULTS OF THE GREAT "ENERGY CRISIS?" The experts by no means agree, but many observers now see several very important trends developing. First, don't be surprised if there is an energy glut -- an oversupply of fuel and power and very possibly lower prices too! -- within a very few years. How can this happen? First, the Arabs threw a real scare into the entire industrialized world by cutting off oil supplies that the advanced nations had come (wrongly, they now realize) to consider "safe." Now, neither the governments nor, more importantly, the huge multinational energy companies mean to sink back into the old lazy dependence on cheap-and-easy mid-east oil: they will do something about developing alternative sources of both oil and other energy-producing materials. Second, such new developments are not really so difficult (for more, see below). Third, if the companies themselves don't take the lead in developing new and cheaper energy supplies, the government will go after the fantastic profits rolled up while they had "nothing to sell" (a measure now before the House Ways and Means Committee could grab as much as $14 billion from the oil industry).

This new situation will greatly affect the world economic picture for at least the next decade, by which time world energy use will undoubtedly have developed a whole new look, with new and quite different patterns of production and distribution. It now seems unlikely that the Arabs will ever again be able to put a near-stranglehold on the developed countries (unless, of course, they do it again soon). This is not to say that the Arab states didn't profit greatly and in many ways by taking the calculated risk of boycotting the West (and Japan too: but for all practical purposes, Japan functions now as a part of the western industrialized world economy). The Arabs' most obvious and immediate goal -- cracking Israel's dominant power position in the mideast -- has been accomplished in almost Arabian Nights' fashion: no one would have believed it possible even a few months ago. Also, the Arabs, especially the Saudis and the tiny but oil-rich Persian Gulf sheikdoms, now have fantastic amounts of cash on hand, and will be a power in world money markets for years to come. (Many people do not realize how small some of these places are: Kuwait, for instance, has little more than half a million people, Bahrain just over 200,000; but both have enormous oil revenues and a per-capita income far above that of most industrialized countries -- although they had to import drinking water until a few years ago!)

The Arabs will now pay a high price for their boycott. In the first place, having got so much of what they wanted, they will be expected to be "reasonable" in future dealings, to include not only more realistic oil prices but also higher prices for the industrial goods they buy from the West. Europe, which was especially hard hit by the oil shortage, certainly intends to get some of its own back in future dealings with Arab countries; the U.S. will be more "generous" because it has a greater interest -- due to its continuing commitment to support Israel -- in keeping mideast pressures down. But the biggest price the Arabs will have to pay is in defending themselves, not from Israel, but Iran. The Western powers can be expected to increase their support for the Shah's effort at making his still poor but large nation the dominant power in the whole area; the Arabs now need Western tanks, planes and advanced technology not just to keep their oil flowing and Israel in check, but to counter the growing Persian threat.

What all this means to American businessmen is plenty of profit opportunities in the entire area from Morocco on Africa's Atlantic coast to Pakistan in northern India, plus worldwide opportunities in energy development (see below). Re the first, we've got what these nations must have, and the oil crisis, whatever it did to our economy, provided them with both the money and the need to buy. Re the second, the North Sea oil "fields" (really smack in the middle of icy, tempestuous high seas) are a good example: American companies are already heavily involved in exploration and exploitation that can not only solve much of Europe's oil problem -- especially crisis-ridden Britain's -- but provide huge new profits as well.

None of this good news should be allowed to hide the fact that the Arab-induced crisis that began last October has already cost the U.S. a great deal, at least in immediate cash-loss and economic growth: the long-range "benefits" now emerging will have to be substantial indeed to compensate for these losses. Few experts would argue that the sharp (5.8%) drop in the gross national product for the first quarter of this year should be charged to anything other than the oil embargo (a year ago the worst predictions were for slower growth). And this in the midst of what is being called "slumpflation."

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