

Devilish Energy Plans

During the past few years severe temporary shortages of gasoline, home heating oil, and most recently, natural gas have fostered an increased awareness of the energy crisis facing this nation. Nearly every economist and energy "expert" has given his or her proposed solution to this problem. Recently we had the privilege of interviewing an heretofore unheard from authority on this topic—the Devil. We are not at liberty to disclose the location at which this interview took place, but we can say that if the heat there could be utilized for warming American homes, the current energy problem would disappear, at least temporarily.

Many of our readers will recall the Devil's views about making slums and creating barbarians, which appeared in another of our publications. As you may have learned, our guest has an uncommon ability to devise appealing schemes that, in the end, cause much trouble for those who had thought they were so grand. Using his "God-given" talent for creating havoc out of small problems, the Devil once again has demonstrated his unique ability—this time in the field of energy. His plans obviously are bearing much fruit. Although his focus in this interview is on energy, you will note that his plans have been and can be adapted to many situations.

The Big Plan

Q. Good morning, Devil. It was good of you—if you'll pardon the expression—to grant us this interview. If you dare to do so, please tell us the plans you have for energy.

A. Let me begin by reiterating my overall objectives. This I do, not out of the kindness of my heart (since I abhor kindness), but that it might discourage your readers to be aware of these things and still feel unable to do anything about them. You know, the invidious results of my plans long ago were often described, including in your very own publications, to no avail. So, I do not fear that my remarks here will jeopardize the success of my design.

After I succeeded for thousands of years in keeping mankind in bondage to the earth, forcing man to struggle just to survive, he finally learned to harness energy for his advantage and thus to free himself from much drudgery. Almost everyone is aware of the great economic advances that Americans have made in the past 200 years. The standard of living of all Americans has improved dramatically partly because man has been able to harness energy to help himself. Deny man this great supplement and he will return to the condition of struggling for subsistence. My objective is to reverse the past trend towards economic improvement and to force the inhabitants of the industrialized countries back to the barbarous state that prevailed a few hundred years ago. Thus, my energy plan is an integral part of my comprehensive scheme for creating barbarians.

Of course, my plans hinge on my true intentions not being recognized by a large portion of the public; therefore, I make the plan widely appealing. In the case of energy, I have instituted an ingenious plan (you'll note I shun humility) for reducing energy use and thus increasing the misery of all Americans. I have exploited the greed of man (there always is that) in this plan. No one likes to pay high prices, so I arranged to have the Government control energy prices at artificially low levels. This was highly popular both with consumers, who felt they were getting something for nothing, and with politicians, who saw it as a way to get reelected. What plan could have been easier to get accepted?

Q. We agree that the imposition of price controls on energy products was done quite easily, but such controls have not reduced energy use. The public has demanded more energy at the low price.

A. You are right. In the short run, controls have increased energy demand and use, and the public has received the temporary benefit of paying below-market prices for their oil and gas. But I consider my plan to be a long-term investment. Unlike most people, I am not impatient; I do not need immediate reward; I can wait for the long-term adverse effects to overtake the benefits.

With my plan, there is inadequate incentive in the long run for energy producers to develop their products. Because of ever-increasing costs of production and restricted price increases, suppliers are squeezed until it becomes unprofitable for them to provide any but the lowest-cost energy. In this way the available supply of energy is reduced, and consumption has to decrease. This simple relationship often is forgotten—no more can be consumed than is produced. So, while my plan increases the desire to consume, and even increases consumption initially, its design really forces a cutback in consumption in the long run.

Furthermore, I think I have hit upon a beguiling scheme to eliminate even the short-term benefit, without altering the final baneful outcome. I have been working to arrange for the Government to increase taxes on all energy products. If I am successful in these efforts, energy consumers will pay higher prices, but energy suppliers still will receive below-market prices. Without the revenues from the higher prices accruing to the producers, supplies still will be retarded and eventually depleted.

Q. How can you hope to avoid a public rebellion against such proposed higher taxes?

A. Aha! Consider this bit of chicanery: Carefully selected politicians would nobly declare that the higher taxes were for the public's own good. A publicity campaign pointing out the need for energy conservation would be undertaken, and the higher taxes would be promoted as the ideal way of achieving conservation while denying "windfall gains" to energy suppliers. Who could genuinely oppose such a righteous purpose?

Alternative Types of Energy

Q. Assuming your plan might work for oil products, natural gas, and coal, what would prevent the ingenious American businessman from developing alternative energy sources that would add to the total supply of available energy?

A. It is true that, with high prices, businessmen would have an incentive to develop alternative energy sources. The best safeguard against such investment and development is to make it unprofitable. History reveals that as long as businessmen believe there is a potential profit to be made, they invest their capital; but take away the potential profit and the development of alternative energy sources will cease.

Environmental protection laws serve me well for this purpose. Protection of the environment is another appealing goal. Who will argue that it is wrong to reduce pollution or to save endangered wildlife? A great public outcry can be generated when the environment is made to appear to be endangered. A few well-publicized claims that nuclear reactors carry a real risk of a nuclear explosion or of radioactive leaks have succeeded in virtually stopping the expansion of nuclear electrical generation. Now I know and some of you know that nuclear energy is far safer than the more conventional forms of electrical generation, but the typical American doesn't. He believes the scare stories contained in television news reports. Public utilities officials have hesitated to invest in nuclear plants when public opinion and Government policy clearly have been and are against them. So much for the "threat" of nuclear energy.

I've also found a way of halting the construction of new hydroelectric plants that would add to the energy supply. I lead the right persons to find a small flower, lizard, or some other form of wildlife that might be endangered by the completion of the dam, or whatever. This devious technique already has been tried and found successful. Believe it or not, generating projects already have been suspended for such reasons.

Q. What about the threat to your plan from energy sources such as solar or wind power? They are environmentally pure.

A. I'm not too concerned about the development of those sources. The amount of space required for the solar panels necessary to produce large amounts of electricity is so great as to make solar power of limited usefulness. Wind power also cannot add a significant amount to total energy supplies. In the meantime, as efforts to develop them increase, the real resources directed to those efforts cannot be applied in developing the earlier-mentioned more promising and economical sources. There are more ways than one to "skin a cat." As long as efficient means of supplying energy are subverted, I am happy.

Limiting Freedom

Q. What about other methods of "conservation," such as Government mandates that all homes be insulated at the taxpayers' expense, that all automobiles operate above a minimum number of miles per gallon, or that utilities be required to burn coal rather than natural gas? Are you behind these proposals?

A. I am proud to admit that I am. Those ideas are terrific. While they may conserve some energy, the amount saved will not significantly upset my overall plan. Moreover, any time the individual freedom of Americans is reduced, my cause is served. I am willing to pay the price of seeing energy conserved in this way. More important for my purposes is that once an individual's

rights are taken away, he has a most difficult time regaining them. A trend has been set. The more individual rights that I can arrange to have taken away, the more barbaric the people become. After all, what is more barbaric than to have a few persons control the actions and output of the majority. For most of history and in much of the world today, this happy (for me) condition has been achieved. I must admit I was worried by the freedoms in Western civilization during the past few hundred years, but now I think I am regaining control. When all rights are gone I will have reached my goal.

Q. Getting back to your energy plan, once the shortages of available energy becomes a severe problem, won't the Government really take steps to alleviate it?

A. Yes and no. It might try to, but it won't. During the past 50 years or so, Americans have developed the useful attitude that when something goes wrong, the Government should and can do something to correct it. Thus, when temporary energy shortages have occurred, they have demanded Government action. Now, the tendency of any government is to increase its role, not to decrease it. Even when problems have been created by government action, that government usually has attempted to solve the problem by further interfering, albeit in a somewhat different manner. Therefore, I expect that the Government's "solution" for a severe prolonged energy shortage will be to nationalize the energy companies. That is, it will take control of the companies producing oil, natural gas, coal, etc. Of course, this would fit right into my scheme, since it would exacerbate the crisis.

Businesses As Energy Users

Q. Because of the tradition of free enterprise in the United States, don't you anticipate substantial resistance to such a radical project?

A. As you say, there may be some resistance to this part of my scheme, but I believe that it can be overcome quite easily. I've already taken some steps that have weakened the public's commitment to free enterprise.

Long ago I planted the seed of an idea that appears to have taken root and is growing stronger. I'm talking about the hatred of the public for business. It is ideal (from my viewpoint) that the very organizations providing jobs and income to consumers now are assailed by these consumers for their role as energy users. How ironic that mankind's hatred for these organizations that have contributed to freeing him from much toil can be used to enslave man to drudgery once again.

I also have taken several steps that have increased public displeasure with energy producers. For example, I've arranged to have the Government permit natural gas suppliers to charge the market price for gas within the state where it is produced but an artificially low price for interstate natural gas sales. When shortages occurred, these gas suppliers were accused of holding back supplies in order to sell them at the higher intrastate price. Given the situation, a businessman would be a fool not to have done so. With enough publicity of such "gouging," the public will demand that the Government do something. What would be better than nationalization?

Also, all energy suppliers, as private businesses, can be accused of being greedy, profiteering companies out to exacerbate the crisis in order to profit further at the expense of poor consumers. It will be very easy to show them in an unfavorable light. Again, nationalization will seem a desirable alternative.

Q. But Devil, wouldn't the nationalized energy companies increase the supply of fuels?

A. Again, in the short run energy supplies might increase. I would expect the benevolent Government to increase production from available sources and to sell these products at below-market prices so that consumers won't have to suffer. However, this could not last long. The record of Government in nationalized industries is extremely poor. Just look at the large deficits incurred by the Postal Service, Amtrak, and Conrail. I am confident that before long bureaucratic bungling will have created such a mess that the supply of and demand for energy will be in complete disequilibrium. Then some forced program for allocating (rationing) the remaining energy supplies would be necessary. Some users then would receive more than others, and those denied hopefully will rebel. Man will act violently when he becomes cold because he has nothing with which to heat his house, or when he becomes hungry because there is no fuel to bring food to the markets. The gears of industry will grind slowly, as they did during the recent cold wave, from a lack of adequate energy. The economy will stagnate or even become depressed. Of course, each succeeding difficulty will bring a response of more Government interference, with an attendant loss of individual rights. Finally, my scheme for returning civilization to a barbaric condition will have succeeded.

Upsetting the Plan

Q. As a final question, is there anything that might upset your energy scheme?

A. Many features of my plan already have been carried out to some extent and will take little further effort on my part to conclude. What could upset my plans would be a change in public opinion. As I've outlined in earlier comments, many aspects of my scheme are dependent upon a particular type of public opinion: an anti-business attitude, an anti-nuclear attitude, and "the Government must do something" attitude. If public opinion shifts toward and there is a widespread demand for less Government interference, my plan would be jeopardized. For example, if the public were to realize the comparative safety of nuclear power and demanded an end to the foolish limitations on its development, energy supplies could increase dramatically. You see, my job would be much easier if there were real shortages of energy in nature. Instead, I've had to devise ways to get humans to create the shortages. So far I've been able to make good use of the widespread greed of consumers who behave as though they can get something for nothing. The success of my plan depends upon their continued support. They do not realize that they are helping me forge fetters for them and their progeny.

Q. The confidence with which you predict the inevitable success of your plan sends chills through us. But don't believe you have discouraged us; we will continue to oppose your scheme, and we expect to beat it.

A. [With a smirk] We shall see.

STATISTICAL INDICATORS

Recent data reveal that the net change in inventories on hand and on order in constant dollars decreased during December and that the inverted layoff rate in manufacturing, new orders for consumer goods and materials in constant dollars, vendor performance, the percent change in sensitive prices, the money supply (M_1) in constant dollars, and the percent change in total liquid assets decreased during January. However, the index of net business formation and contracts and orders for plant and equipment in constant dollars increased during January.

The only change affecting the percentage of primary leaders appraised as expanding cyclically occurred in the index of 500 common stock prices. It had been appraised as probably expanding, but we now are unable to ascertain its cyclical status. Consequently, the percentage of primary leaders appraised as expanding cyclically has decreased from 75 to 67. We shall describe in more detail the latest changes in all the primary series and their implications in our monthly report on the indicators scheduled to be published in the next issue of *Research Reports*.

Among the primary roughly coincident indicators, manufacturing and trade sales in constant dollars increased during December, and the index of industrial production increased during February. All the primary roughly coincident indicators remain appraised as expanding cyclically.

Manufacturing and trade inventories in constant dollars increased during December, and the index of labor cost per unit of output increased during January. However, commercial and industrial loans decreased slightly during January. The percentage of primary lagggers appraised as expanding cyclically remains 83.

That 67 percent of the primary leading indicators are appraised as expanding cyclically has favorable implications for a continuation of the current expansion of general business activity.

SUPPLY INDUSTRIAL PRODUCTION

Production of steel, automobiles, and electric power (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

	1972	1973	1974	1975	1976	1977
<i>Steel</i>						
Ingot (million tons)						
1 week: March 12	2.55	2.92	2.90	2.72	2.54	2.37
4 weeks: March 12	9.90	11.63	11.59	10.93	9.87	9.30
<i>Automobiles</i>						
Vehicles (thousands)						
1 week: March 12	179	211	145	131	185	208p
4 weeks: March 12	718	863	596	420	709	817p
<i>Electric Power</i>						
Kilowatt-hours (billions)						
1 week: March 12	32.4	33.5	33.4	36.2	37.5	38.1
4 weeks: March 12	129.6	140.9	139.6	143.4	147.0	157.2
Percent change from 4 weeks a year earlier: +6.9						

p Preliminary.

DEMAND CONSUMER INSTALLMENT DEBT

Note: All data are adjusted for seasonal and trading-day variations unless otherwise noted.

Total consumer installment debt outstanding, as reported by the Federal Reserve Board, was \$178.0 billion at the end of January. This amount, not adjusted for seasonal variation, was \$17.2 billion, or 10.2 percent, more than that a year earlier.

During the 3-month period ended in January, the average net change (extensions less liquidations) in consumer installment debt outstanding was an increase of \$1.66 billion per month. This average was 11.4 percent more than that during the preceding 3 months and 27 percent more than that during the 3 months ended in January 1976. This net change series is a leading indicator of business-cycle changes, and it is expanding cyclically. A similar series, the ratio of extensions to liquidations is shown in the accompanying chart. (The cyclical peaks and troughs of these two series are nearly identical. However, the magnitudes of cyclical changes in the ratio series have been comparatively more stable because the ratio series is

not affected by the secular increase in consumer installment debt outstanding, but the net change series is.) The ratio series has been a highly reliable leading indicator of business-cycle peaks. During the postwar period, this series has begun to contract markedly at least 6 months before every reference peak. Both the basic series and its 3-month moving average recently reached new highs during this cyclical expansion, suggesting that the current expansion will continue.

Extensions of installment credit to consumers averaged a record \$16.44 billion during the 3 months ended in January. Liquidations averaged \$14.78 billion then, which also is a record amount. The percent changes in the amounts extended and liquidated during the 3 months ended in January from those during the preceding and year-earlier 3-month periods are shown by category in the following table.

Category	Percent Change from	
	Preceding 3 Month Period*	Year-Earlier 3 Month Period
All Installment Loans		
Extended	+16.0	+9.8
Liquidated	+12.5	+8.1
Automobile Loans		
Extended	+23.4	+9.1
Liquidated	+8.6	+7.6
Nonautomobile Loans		
Extended	+13.0	+10.0
Liquidated	+14.1	+8.3

* Seasonally adjusted annual rate.

During the 3 months ended in January, automobile installment loans outstanding increased a record average of \$750 million per month. At the end of January, the total of automobile installment loans outstanding was \$60.3 billion, which was about 34 percent of total consumer installment debt outstanding.

During November, December, and January, non-automobile installment loans increased an average of \$910 million per month, which was a new high for this expansion but less than the averages during some 3-month periods in 1973.

During recent years the distinction between consumer installment loans and home mortgage loans may have become less clear. Mobile home loans and home-improvement loans are included in consumer installment debt data. These two types of loans together account for about 11 percent of reported consumer installment indebtedness. The rapid increases in the prices of houses during the past few years reportedly have enabled homeowners to take down second-mortgage loans on the increased equity in their homes. That home mortgages usually carry lower interest rates than consumer install-

ment loans makes such borrowing relatively attractive. To the extent that second-mortgage loans have been used for purchases traditionally financed with consumer installment borrowings, the recent data on consumer installment debt may not fully reflect the willingness of consumers to borrow to purchase things. This would particularly apply to nonautomobile loans.

Increased second-mortgage borrowing might account for the small increase in the ratio of consumer installment debt to personal income thus far during the current expansion. This ratio during January was 12.34 percent, which was only 0.21 percentage point more than that at its apparent cyclical trough 15 months earlier. During prior postwar recoveries, this ratio had increased an average of about a full percentage point by the fifteenth month after a cyclical trough. In spite of the small increase, the trend of this primary lagging series has been upward, and this series is appraised as probably expanding.

Recent data on consumer installment debt suggest that the willingness of consumers to borrow to purchase things has continued to increase. This trend has favorable implications for general business activity during the next few months.

RETAIL SALES

Estimates of retail sales during the most recent week and 4 weeks compare with such sales during the corresponding periods a year earlier as follows:

Period	Percent change
Week ended March 12	+11
Four weeks ended March 12	+ 9

PRICES COMMODITIES PRICES

Index	1976			1977		
	Mar. 8	Feb. 28	Mar. 7	Mar. 18	Mar. 10	Mar. 17
Spot-market, 22 commodities*	505	554	562			
Commodity-futures	647	851	894			
Steel-scrap	\$86.17	\$72.83	\$72.83			
Gold	\$134.25	\$147.05	\$148.90			

*For the preceding Tuesday.

Note: The indexes are, respectively, those of the U.S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap. The gold price is the final fixing in London.

Research Reports is published weekly at Great Barrington, Massachusetts 01230 by American Institute for Economic Research, a nonprofit, scientific, educational, and charitable organization. Second class postage paid at Great Barrington, Massachusetts 01230. Sustaining membership: \$9 per quarter or \$35 per year.

