Pulling through recession

US still faces grim future

Associated Press

WASHINGTON — The United States is pulling out of the worst recession since the 1930s, but Americans face unemployment and high prices for years to come, the Congressional Budget Office said Tuesday.

The budget office, Congress' counterpart to the president's Office of Management and Budget, offered two possible strategies. One would speed up economic activity to provide more jobs. The other would be aimed at trying to hold down inflation.

Forbidden to make recommendations, it advocated neither, but projected the expected consequences of both.

The nation's recent surge in prices is particularly alarming because it has been largely concentrated on necessities, said Alice Rivlin, an economist who heads the budget office. She told a news conference the surge could endanger the still-young recovery.

"When inflation is concentrated on food and fuel, consumers have to buy them anyway," she said. "There is little money left over for other purchases, and the economy suffers."

A second danger, Mrs. Rivlin said, is that continued price increases will trigger another round of large wage increases, spinning the inflationary spiral even higher.

"Some of the present favorable factors may be temporary," she declared.

The budget office forecasts substantial economic recovery until at least mid-1976, but added that Americans will continue to be plagued with the nation's unprecedented combination of high unemployment and high prices at least through 1977.

By the end of 1976, its report said, the unemployment rate which has remained over 8 per cent this year should be down to the range of 6.9 to 7.6 per cent. This still would mean 7 million Americans without jobs.

During the remainder of this year, the report said, prices are likely to continue increasing at an annual rate of 6 to 8 per cent. A surge of increases, especially in food and fuel prices, brought the rate up to 12 per cent in June and July 1975, the report said, but the rate has since subsided — though not to the levels of early 1975.

A speedup in economic activity, the report said, would require continuing the temporary tax cuts in effect for this year, reducing taxes an additional $15 billion and increasing federal spending by $10 billion, all effective in 1976.

Additionally, the Federal Reserve would be expected to allow the money supply to grow enough to hold down interest rate increases.

The opposite strategy would be to end the temporary tax reductions by Jan. 1, 1976, cut spending $5 billion and keep monetary growth at a relatively low rate.

The expansionary strategy, the budget office said, would lower unemployment by 1.1 per cent at the end of two years — meaning about 1 million more jobs — but would raise the rate of inflation for some years ahead by a maximum of five-tenths to seven-tenths of one per cent.

It would increase the federal deficit, although the budget office report said much of the tax and spending cost would be offset by higher revenues and lower unemployment.

The restrictive strategy, the report said, would raise the unemployment rate by nine-tenths of one per cent at the end of two years and lower the inflation rate for several years, with a maximum reduction of three-tenths to four-tenths of one per cent. It would lower the deficit, but not by the total amount involved in the spending and tax moves, the report.

The economic recovery, Mrs. Rivlin said, can be credited largely to declining inventories, causing businesses to begin to think about replenishing them. She said it also can be credited to consumer spending spurred by the temporary tax cut and increased Social Security payments.

"To sustain the recovery something else has to happen," she said, "more housing, more automobiles sales, more spending on capital goods. We don't see that yet — we just don't see the future clearly after mid-1976."

Immediate decontrol of domestic oil prices "would add nearly 2 per cent to the general price level and could retard or even abort recovery," the congressional report warned.

Authority to control prices has lapsed and Congress and President Ford are still at odds on a long-range energy policy. So far, however, oil companies have not generally raised prices.

Decontrol phased over a substantial period, such as the 39 months under discussion, would have little immediate effect on the economy, Mrs. Rivlin said. But she said there would be an appreciable effect by late 1977 and that this effect was not taken into account in preparing projections for the report.

In any case, U.S. motorists can expected to be paying at least 2 cents a gallon more at the filling stations soon, the report said, because the Organization of Petroleum Exporting Countries plans oil price increases.

It added, however, that the increase might not be as great as had been feared, perhaps not exceeding $1.50 a barrel.

The projections also assumed that the $2 a barrel tax on imported oil imposed by Ford would be dropped, either by agreement with Congress or by a court ruling that the President did not have the authority to proclaim it.

The average price of foreign oil from major oil producing companies is $10.46 per barrel.

Kissinger warns against oil hike

Associated Press

VIENNA — The economic commission of the Organization of Petroleum Exporting Countries began preparations Tuesday for a ministerial gathering that could boost the price of oil. U.S. Secretary of State Henry A. Kissinger issued a strong warning against such an increase.

The average OPEC oil price is now $10.46 a barrel.

Commission members, mostly high officials of economics and finance ministries of the 13 OPEC governments and the group's Vienna headquarters, were tight-lipped about their deliberations.

However, Kissinger told the Southern Governors Conference in Orlando, Fla., that the oil exporting nations are moving in the direction of another price jump. He warned that it could seriously jeopardize U.S. relations with the oil producers and endanger efforts to stabilize the global economy.

The economic commission will prepare recommendations for the Sept. 24 meeting of OPEC oil ministers, who will decide whether to continue the present oil price freeze, which expires Sept. 30, or raise prices. OPEC members account for 80 per cent of world oil trade.

Although the commission is expected to conclude that a price boost for crude oil is in order to offset the effect of Western inflation on the revenues of oil exporting countries, it was considered anybody's guess if the ministers would follow such a recommendation. The ministers have rejected the commission's recommendations for price boosts on at least two previous occasions.

The ministerial session is expected to become a clash between "price hawks" and "price doves," with forecasts ranging from no price increase at this time to one of 35 per cent. Saudi Arabia, the No. 1 producer among OPEC members, is on record as saying that it is in the interest of all concerned to delay a price increase.

Arab price hike termed 'dangerous'

Associated Press

ORLANDO — Secretary of State Henry A. Kissinger said Tuesday that an anticipated price hike by Arab oil producers "would seriously jeopardize" U.S. relations with those nations and have serious repercussions throughout the world economy.

Kissinger declared in an address to the Southern Governors Conference that all countries, particularly the poorer ones, "have an interest to avoid this."

And the secretary said it is essential that the United States and its industrial allies get together on an over-all energy policy before another Arab price increase is announced.

Kissinger, who later headed for Cincinnati and another public appearance Tuesday night, did not estimate what the new oil price might be. But he pointed out that the cost of Arab petroleum has climbed 500 per cent in the last five years.

The Secretary spoke sternly — although indirectly — concerning the next expected jump.

"The United States cannot entrust its economic and political destiny to decisions made elsewhere," Kissinger said.

In other matters, Kissinger told the 13 governors that the Ford Administration's request for aid to Israel this year "will be below $2.5 billion, in the range of $2.2 or $2.3 billion."

He did not give a figure for aid to Egypt, previously estimated by officials at between $600 million and $800 million. However, he defended aid to Egypt as important in cementing American influence in Cairo and in stabilizing the Middle East situation generally.