'74 outlook: recession, prices up

By Nick Poulos
Financial Editor

"**THE ENERGY SHORTAGE** will not only probably induce a recession in the first half of 1974; the tremendous increase in the price of energy will also bring a horrendous inflation rate," Paul Samuelson asserts.

Contacted at his office at the Massachusetts Institute of Technology, the Nobel Prize winning economist told The Tribune he expects the cost of living to increase 10 per cent on an annual basis in the first half of the new year.

However, he said he expects some "abatement" in this rate in the second half of 1974, to about 6 per cent.

Samuelson's economic expectations of a recession and higher inflation for 1974 are generally shared by other leading economists, including Milton Friedman, the University of Chicago economics professor.

WALTER HELLER, economics professor at the University of Minnesota, agrees with the recession forecast, but doesn't believe the cost of living rise will be as high as Samuelson thinks.

Heller, who served as chairman of the Council of Economic Advisers under the late President Johnson, said he expects the cost of living to rise by 7 to 8 per cent in the first half of 1974, then moderate in the last half.

Samuelson predicts the recession will bring an unemployment rate of 6 per cent by the end of the year. Heller believes the rate will go "beyond 6 per cent."

Most of the economists expect the economy to resume its growth, in real terms, in the second half.

"We may have a rather good year in 1975," Heller observed.

HOWEVER, HELLER is deeply concerned that labor will become quite "militant" in its pressure this year for substantial wage increases to offset the spiraling cost of living.

"The wild card in the economic picture is labor," Heller said. "Surprisingly, labor hadn't exerted much pressure in 1973. But labor could become quite

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militant in its demands this year, and that is a worrisome factor in the economic picture."

Economist Albert T. Sommers believes that the "gale wind of inflation" sweeping the United States and the rest of the Western world is a greater threat than the energy shortage.

"The rate of inflation is the most serious disease of our economy because it is a genuine danger to economic growth and political stability," asserts the senior vice president of the Conference Board, New York-based business research firm.

SAMUELSON said the severity of an economic slowdown this year depends largely upon exactly how much of an energy shortage the country will actually experience.

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"There are a lot of 'ifs' in my general predictions," Samuelson said.

"If the Arab oil boycott against us ended in January, it would change the economic picture for us. In any event, I don't think we'll be as short on oil as some people have suggested.

"My economic prognostications are based on the assumption that the President's estimate of a 17 per cent shortfall in oil, or 3 million barrels of oil a day, is correct. Personally, I don't believe the shortfall will be that much; I'd estimate it will be in the area of 2 million barrels a day."

Samuelson added he is still suspicious that "something funny" is going on with the energy situation.

"It's not clear to me that some elaborate charade isn't being played by the oil companies and the Japanese to take advantage of the situation," he said.

"But fake or not, the tremendous increase in energy prices will bring a horrendous rate of inflation. The oil boycott may not turn out to be as serious as we think, but it is prudent to assume the worst possible impact in trying to assess the economic implications."

Samuelson added he is concerned that the Western nations appear to be heading into a recession in concert after having experienced a boom together.

"It's much better if there is some diversity in economic trends among the Western nations," Samuelson observed. "But it looks like we're coming down the hill together. That's not the best way for it to happen."

HOW IS THE consumer going to react to these problems in 1974?

"The consumer is going to be the basic weak link in the economic picture," said Robert G. Dederick, senior vice president and economist of Northern Trust Co.

"The question here is whether weak consumer spending will be offset by continued strong spending by business. I expect business spending won't be able to offset lower consumer expenditures in the first half.

"The consumer's real income will be hurt badly by inflation and growing unemployment. He'll be uncertain as to what to buy in this energy crisis—he'll certainly cut back on spending for durable goods, especially for autos and houses."

Dederick, who is president of the National Association of Business Economists, said he expects the increase in the cost of living this year will be about 8 per cent.

"I'm uneasy about 1974," Dederick concluded.

How would a possible Nixon resignation or impeachment affect the economy?

"A 'clean' resignation by the President wouldn't have an adverse effect," Samuelson said. "Impeachment would not be constructive."

Heller asserts a clean resignation by the President—not under fire—would be a "distinct plus" for the economy. Impeachment would be a "minus" for the economy, he added.