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by

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The economic policy that has survived the starts and stops of Carter's first one hundred days is deeply conservative. There is nothing of significance in the Carter program as it now stands that in principle could not have been in a Ford program, if Ford had survived the November election. The difference between the Carter program and one that Ford might have pushed is that Carter apparently is putting more weight on using the price system to achieve policy goals than was true of the Ford/Nixon administration.

The conservatism of the Carter administration is nowhere more evident than in its "energy" policy proposals. The Carter administration program takes the existing structure of the energy industries as given; nowhere in the program is there any sign of an effort to break either the OPEC cartel or the dominance of the big seven international oil companies.

A major thrust in the Carter program is to bring the price of domestic energy into line with the prices set by the Cartel. By using taxes to do so the Carter program diminishes the threat that domestic supply expansion will weaken the cartel's power. Freeing the price of old oil and gas in the United States is more dangerous to the cartel's power than the tax system proposed by the administration. The most effective way to weaken the power of the OPEC cartel and the oil oligopoly is to allow the current price to producers to rise to its full market (cartel imposed) price. As will be pointed out later, if the present price is well below the future (discounted) price, it "pays" for the owner of a depletable resource to leave it untapped; if present price is above future (discounted) price, then the owner will extract as much as possible at current prices. In effect oil and gas decontrol is a potent weapon available against the cartel and the dominance of the oil business by the major companies.

The Carter energy proposal is more hardnosed and realistic than the rather amorphous program that emerged during the Ford-Nixon-Rockefeller days. The Carter program implicitly recognizes that supply expansion programs are either a "hand wave" (i.e., rhetoric without substance) or a road to impoverization. Once supply expansion is ruled out as not being economically feasible, the demand constraint is the only realistic alternative. Furthermore because of balance of payments considerations - which is the key element in the energy problem - the demand constraint must be greater than that which would rule with the cartel's prices. Thus the Carter program "nudges" the price system a bit by automobile and gasoline taxes, subsidies to various household energy conserving devices, and inducements to switch towards coal. Instead of recognizing that the energy crisis implies that many of the trends in industry and living style that were induced by low and decreasing energy prices over the first two thirds of this century have to be "undone" in the last third of this century, the Carter administration's view of the energy problem is basically that nothing fundamental has changed.

One way to get a handle on how the economic policies of an administration will evolve is to evaluate the views and positions of the various advisors and to determine how these advisors are doing in the "gavotte" that they perform for the favors of "the Prince". From a Midwestern vantage point, it seems clear that over the first one hundred days Burns and Schlesinger have emerged as the stellar performers, Schultze tripped on his first solo, and Blumenthal is learning the elementary positions. The new faces in economics - Vance, Marshall, and Kreps - have been relegated to provincial companies.

Burns, Schlesinger and Schultze are Washington veterans. Burns entered the Washington scene from Columbia University in Eisenhower's administration and became a member and Chairman of the Board of Governors during the Nixon administration. Schlesinger served Nixon in various cabinet positions and was dismissed in a pique by Ford. Schultze served in the Kennedy-Johnson administration and spent the Nixon-Ford years in exile at Brookings. Blumenthal is basically a Washington outsider, he is a business executive who had minor government experience and who had picked up a Princeton Ph.D. in Economics early on.

Of particular interest is the apparent loss of "clout" by Schultze. During the years at Brookings, Schultze had specialized in preparing alternatives to existing programs; each year a volume was prepared at Brookings which carried alternatives to the Nixon-Ford budgets and programs. It may have seemed to Carter that by appointing Schultze he was getting a shelf of "innovative alternatives" to the Nixon-Ford program. What he got was a set of academic exercises each of which sketch a program in a political and economic vacuum. When it came to some need for stimulae the best that he would get from Schultze was the $50 tax rebate (which was a cornerstone of the 1975 expansion program during the Ford days) and a tired proposal for a higher investment tax credit, this time at 12%. The banality of the fiscal policy proposals combined with the usual spring expansion of the economy, which the Brookings models apparently do not catch, led to the quite apparent downgrading of Schultze. However Schultze is an experienced

Washington hand and he had cultivated the Congress during his exile at Brookings. He may have tripped in his first entrance but he still has control of the economic message of next January. Even though the first hundred days have shown the "banality" of the Brookings approach to economic policy, Schultze cannot be counted out. In an administration so concerned with symbols rather than substance, control over the President's annual economic report can be a potent weapon for an experienced Washington hand.

Mr. Burns has been important in Washington for a long time. He served Mr. Eisenhower as Chairman of the Council of Economic Advisors and Mr. Nixon as a White House aide before being appointed to the Chairmanship of the Board of Governors of the Federal Reserve System. He has made the fighting of inflation the major objective of his input to public policy. His terms as Chairman of the Federal Reserve have been characterized by the greatest sustained inflation over a protracted period since the Civil War. Perhaps it can be argued that but for Mr. Burns inflation would have been much worse, but it might also be true that the actions and policies undertaken with his blessings have made things worse. Aside from being vulnerable to the accusation that in 1971-2 he manipulated a "political cycle" to aid the re-election of his patron, Mr. Burn's action's have been guided by the unwavering belief that demand restriction is the way to constrain inflation, even though over the past decade inflation has tended to continue even when demand is so low that significant levels of unemployment exist.

Although Mr. Burns has a reputation as a monetary and fiscal conservative, his period as Chairman of the Board of Governors has been characterized by a rather permissive attitude towards the behavior of the large and giant banks. A number of crises in banking occurred during his term and these crises were resolved without imposing significant constraints upon disruptive financial innovations. I have argued in a number of places that the way in which the crises were resolved aided and abetted the subsequent inflation. Even though Burns has been an overt fighter against inflation, he has in fact been a covert ally of inflation.

Although Mr. Burns had a considerable professional reputation before he became "political" during Eisenhower's terms, Mr. Schlesinger was mainly known as an applied economist interested in problems such as defense before he went to Washington in Nixon's years. Whereas Mr. Burns was a Professor at Columbia, Mr. Schlesinger's main career center was Rand. One of the doctrines associated with Rand is that "price theory", i.e., the way the standard economist analyses the behavior of product and service markets - is a useful way to analyse problems in which the government procures, constructs, or provides services and that manipulating prices is the apt instrument for public policy. A Rand economist would tend to use price theory analysis and market pricing techniques to attack whatever public policy matters have to be faced. The genesis of the energy program with its use of price to achieve ends within the existing industry structures can be found in the economics of Rand.

Thus we can say that given the two "powers" that have emerged the thrust of the aggregate monetary and fiscal policy will be to constrain aggregate demand to fight inflation, and the thrust of other policies - energy, welfare, employment - will be to devise manipulations of prices in an endeavor to guide the economy in the desired direction. Thus the main thrust of the energy program is a system of excise taxes that effect the relative prices of the various fuels and devices that use fuels associated with a minimum amount of subsidization of supply expansion. Both sets of policies will be deeply conservative in that no serious questioning of the existing institutional structures will be essayed.