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SCIENCE

Two Digit Inflation

For many years, we lived with increasing affluence and a low rate of inflation. Suddenly there have been disagreeable changes. The rate of inflation has jumped to about 12 percent. Those who are retired and dependent on savings have been hard hit. Others whose pay is adjusted slowly have lost purchasing power. The beneficiaries have been the greedy who can demand and get disproportionately increased wages or prices. These effects have emotional overtones: the United States has had little recent experience with rapid inflation; to many people it is a scary thing. They see inflation accelerating and wonder why it is happening, how far it will go, and whether it can be stopped. The phenomenon is bigger than the individual, and government is expected to do something about it.

Indications are that Mr. Ford and the rest of the Administration are uncertain what to do. And they are not alone. Quite a few other people, including Congress and the economists assembled for the summit meeting, also seem divided and uncertain. The Administration probably would prefer to do nothing, but the impending election and the emotional state of the electorate leave no alternative but to do something, if only to call conferences.

A first step in dealing with inflation is to identify causes. Once a phenomenon is understood, it is usually less frightening, and a basis for action may be established. Perhaps we will not discover all the causes, but three have interacted to make a formidable combination—food, environmental improvements, and energy. World demand for food, coupled with a desire to use it for political purposes, led to higher prices. To pay for oil imports, it is necessary to export large quantities of food at high prices. Environmental concerns have led to higher food prices, for example, through banning of pesticides. Higher prices for goods have resulted as manufacturers passed on abatement costs. Environmental factors have been a major cause of higher costs for energy.

Increasing prices for energy are the major factor in creating our present situation. Energy enters repeatedly into virtually every product and activity. There is a close correlation in time between high inflation rates here and in the advanced countries and increased prices of oil. The end is not in sight. Less than two years ago, coal sold for $8 a ton. In anticipation of a coal strike, spot prices have gone as high as $50 a ton. A huge wage settlement for the miners will guarantee further increases in the cost of electricity.

The relationships of the price of oil to demand and supply are almost weird. A 400 percent increase in the price of oil abroad led to an overall shrinkage of only about 15 percent in demand. Imports into the United States have been running 15 percent above a year ago. In spite of reduced demand, the producing countries are holding the price line by cutting production. In a few months, the producers could be demanding and getting even higher prices. Why trade oil for paper? In the United States, a doubling of the price of domestic oil has been accompanied by a 5 percent drop in production.

This country will not be free of inflation until it solves the energy problem. The quickest path is conservation. But the public will not conserve or endure enforced scarcity until it understands the problem. The Administration should put less emphasis on conferences and on tinkering with interest rates and more emphasis on fundamental issues.

—PHILIP H. ABELSON