

Divine p. 901-905 **Energy and the Economy**

Energy and the Economy	<ul style="list-style-type: none"> • Outbreak of war in the ME upset the supply and price of fuel resulting in an energy crisis and high inflation • Upset American way of life and economy
The October War	<ul style="list-style-type: none"> • 1967 6-Day War Israel took over the Golan Heights from Syria, Jerusalem and the West Bank of the Jordan River from Jordan (obvi), and the Sinai peninsula from Egypt • Added to ME tension, allied Arab nations wanted their land back • With Soviet help October 1973 Syria and Egypt attacked Israel • Kissinger used Yom Kippur war to become neutral (after initial resupply) • October 17, Arab member of OPEC (Organization of Petroleum Exporting Countries) 5% cut in production, w/additional 5% each month until Israel gave back land from 1967 • October 19 America responded with 2.2 billion aid package for Israel • October 20 Saudi Arabia cut off oil shipments to U.S. and the Netherlands • Embargo created worldwide oil shortage • U.S. depended on ME for 1/3 daily consumption • Long lines, locks on gas, purchasing of Japanese cars • Leader of OPEC and Shah of Iran raised prices fourfold • Gas and home heating fuel doubled in weeks • Nixon requested turning down thermostats, closing gas stations on weekends, reducing the speed limit, • By March Israel had given back the Sinai to Egypt, ending the embargo and plentiful gasoline • New era- U.S. was 6% world population, consumed 40% world's oil and therefore dependent on ME for economic well-being • Notion of limited resources in a land of abundance
The Oil Shocks	<ul style="list-style-type: none"> • After WWII cheap energy meant growth, price of oil declined as ME industrialized and produced • Gas 35 gallon in 1973- cars, suburbs, commutes, detached houses w/air and central heat dependence on expensive energy • First shock 1973 Yom Kippur War and Arab oil embargo • Demand increased with development of Western Europe, Japan and U.S. and caught up with production, OPEC raised prices • \$3/b, \$5/b, \$11.65/b caused price of gas to double- unanticipated housing and driving costs • Consumer spending dropped, recession hit, unemployment rose to 9% by 1974 • Detroit hit the hardest- 225,000 laid off • Ford cut taxes in 75, U.S. saw recovery in 76, inflation remained high • Carter saw deficit spending and high interest rates through 78 • 1979 Iranian Revolution and Shah overthrown, OPEC doubled prices over next 18 months • Oil to \$30 /b, gasoline \$1/gallon • Inflation • Panic- Drivers filling every day or two, long lines, total freak outs, violence • Hatred toward Carter • End of 1979, supply equaled demand, gasoline remained at \$1- no faith

<p>The Search for Energy Policy</p>	<ul style="list-style-type: none"> • Shocks of 1973 and 1979 demonstrated U.S. running out of fossil fuels relied upon for growth in the past • Domestic production peaked in 1970, declined every year after • Oil spill in Santa Barbara • Environmental Protection Agency 1970 monitor industry- Clean Air Act passed, Earth Day April 1970 • Shift from coal to clean burning fuels and natural gas • Crunch created confrontation between environmentalists and industry • Sierra Club and others failed to stop off-shore oil drilling and coal mining • Questions about policies • Ford wanted to expand production to makeup for shortage • Republicans wanted more coal and nuclear power • Accident at Three Mile Island in Penn in 1979 stopped more plants • Democrats wanted price control and conservation, wanted rationing and open market regulation • Congress did both: Constructed Alaskan pipeline, used price control on domestic oil and mandated fuel efficiency and mileage requirements • 1975- 10% world's oil used on U.S. highways, act saved on gasoline • Patchwork-no coherent strategy • Imports continued to grow throughout the decade
<p>The Great Inflation</p>	<ul style="list-style-type: none"> • Oil shocks led to inflation • Vietnam created deficits 63 billion in 1960s to 420 billion in the 1970s • Population increase and poor harvests led to food shortages- 20% increase in cost in 1973 alone • Oil biggest factor • Cost of car went up by 72% from 1973-78 • Hamburger and milk doubled, bread tripled, incomes fell • Ford and Carter had difficulties • Federal Reserve Board mandated banks reserve money to take some out of circulation, drove interest to 20%
<p>The Shifting American Economy</p>	<ul style="list-style-type: none"> • Recession, GNP slow to grow, industry lose position, especially steel • Foreign competition- German and Japanese cars • UAW lost members • Public employee unions grew, services needed to fund Great Society for boomers • New industries IBM and electronics prospered • Conglomerates- huge corporation invest different sectors • Shift in industry from East and Midwest to Sunbelt and CA (no unions, good weather) • Inflation, oil shocks, unemployment rates, etc. - new technologies showed hope