

## TASK TWO: GOVERNMENT, SUPPLIES AND SHORTAGES

### A. TERMS OF REFERENCE

Looked at with the benefit of 2 years' hindsight, what does the 1973-74 period tell us about the possibilities for and the limitations to effective action by the Federal Government to secure reliable supplies and prevent shortages of key raw materials?

#### Rationale

During 1973 and 1974 a series of severe shortages arose which caused hardship and dislocation throughout the economy. These shortages, and the perceived inability of the Government to do anything to alleviate them, were in large part responsible for the creation of the National Commission on Supplies and Shortages.

The shortages themselves largely disappeared with the coming of the sharp recession in late 1974. However, as the economy has begun to turn upward again, fears have been expressed that the problems of 1973-74 may recur or even worsen.

Major contributing factors to the shortages of 1973-74 were the direct and indirect effects of the action of OPEC. In the aftermath of the events of 1973, third world materials producers began to talk openly about emulating the oil cartel. The growing dependence of the United States on imported raw materials and the increasing interdependence and vulnerability of the industrialized countries lent credibility to this threat in spite of the fact that economic analyses almost uniformly tended to downplay its importance. This concern about our possible vulnerability to supply cutoffs, plus a belief by some that large swings in raw materials prices were both undesirable and could be prevented, led to the serious discussion of materials strategies employing stockpiling in various forms.

A parallel concern that surfaced in a particularly graphic manner during the early 1970's was the question of the long-term availability of basic resources. Again, subsequent analyses have tended to downplay the seriousness of the problem, but not all are convinced. Even those who contend that resources will be adequate in the foreseeable future tend to disagree about the degree of governmental involvement that will be required to achieve what Goeller and Weinberg recently referred to as "The Age of Substitutability." In particular, some have pointed to the troubles that occurred in 1973 and 1974 as proof of the need for a more overt planning capability for the Government.

## Questions

1. During 1973-74 it was widely believed that the shortages we were then experiencing were the first sign that we were entering into an "Age of Scarcity" during which such shortages would become commonplace. There are now strong indications that the shortages observed during 1973-74 had little or nothing to do with an underlying scarcity of raw materials. Was there a misperception of the basic problem? What lessons for future Government policy can be learned from the 1973-74 experience?
2. Participants at preceding Henniker conferences apparently have agreed that total self-sufficiency in raw materials, while perhaps technically feasible, is not a desirable goal for the United States. How should the proper degree of self-sufficiency be determined? What policies are required to attain this level?
3. The Office of Technology Assessment has recently completed a major study of materials information systems. This study identifies weaknesses in the current system, discusses possible changes, and outlines institutional alternatives for implementing these changes. In the light of OTA'S results, what, if any, changes in Government materials information systems are both feasible and desirable?
4. OTA has also just finished a study of economic stockpiling. Among the possible stockpiling objectives which are identified are: stockpiling to offset the effects of supply disruptions of key imported materials; stockpiling to deter price-enhancing actions by producer nations; and stockpiling to stabilize the prices of important raw materials. This study estimates the benefits and costs of alternate stockpiling policies, suggests a methodology for implementing and operating a stockpile, and outlines institutional alternatives for congressional consideration. In your opinion, is stockpiling for any of these purposes both feasible and desirable? If so, how are specific commodities to be selected for stockpiling, and what kinds of operating rules would have to be established?
5. How active a role must the Government take to assure the longrun availability of raw materials? Is there need for an increased role in monitoring developing supply/demand trends? Is increased financing of long-range R&D on materials substitution required? If so, how is the Government to decide which projects are worthy of support? Does the situation dictate that the Government undertake something approaching long-term planning?

## B. SUMMARY OF TASK FORCE REPORTS

### Task Two

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#### Group A

#### Group B

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##### Points of Agreement

Shortages during 1973-74 were not related to a scarcity of underlying raw materials. These shortages were directly related to the lack of capacity of conversion and processing facilities to respond to unusual surge in demand due in part to Federal intervention.

The U.S. should not endeavor to be self-sufficient in all materials. The acceptable degree of import dependence must be examined on a case-by-case basis using an adequate set of criteria including effect on employment, economic dislocations, and strategic security.

It is not desirable at this time to create a new bureaucratic function in establishing a materials information system. The further development of MIS can be pursued through more aggressive and directed effort of existing bodies.

Industry must be a partner in, contributor to, and user of the MIS.

During the 1973-74 period there was no "real" scarcity of materials. The problems were essentially those of unsound Government actions and the resultant "shortage mentality."

Self-sufficiency is not a goal in itself. The greatest degree of sufficiency is needed in critical commodities and essential industrial materials. Accurate information is needed to establish criteria needed to define these critical and essential materials.

To establish a materials information system it would appear feasible to make use of current information systems with evolutionary changes as required for centralized coordination.

Industry information systems for reciprocal inputs are equally important to a MIS with the Government/industry interface being of major concern.

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##### Points of Disagreement

Stockpiling industrial materials should be on an emergency basis only, in response to embargo, limited to short term demand for a few materials, to gain time until other normal free enterprise market forces act to limit or eliminate a perilous gap.

A limited economic stockpile for critical commodities and essential industrial materials is desirable, until the ultimate goal of free and open trade on a world wide scale can be achieved.

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##### Comments

A materials information system must contain provision to assure that constructive analytical use is made of proprietary data without compromise to its source.

To assure the long-run availability of raw materials the major Government role is to supply accurate and timely information sufficiently in advance to ensure that the market will give the proper response.

There should be a stated Government policy of collecting as much detailed mineral information as possible and industry associations should endorse this goal.

Government and industry commodity experts should meet frequently to standardize data definitions and format and to minimize overlap.

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