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THE FEDERAL ENERGY ADMINISTRATION
FEDERAL BUILDING
12TH AND PENNSYLVANIA AVENUE, NW.
WASHINGTON, D.C. 20461

REMARKS OF THE HONORABLE FRANK G. ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION
BEFORE THE

NATIONAL ENERGY FORUM III OF THE
WORLD ENERGY CONFERENCE
SHERATON PARK HOTEL
WASHINGTON, D.C.
THURSDAY, MAY 15, 1975
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THURSDAY, MAY 15, 1975, 9:30 AM

It is a pleasure to take part in this Third National Energy Forum of the World Energy Conference.

The theme you will be focusing on over the next two days is "Energy for the Nation: Who Will Pay the Bill?"

The simple answer to that question is that it will be dutch treat -- with every person in the country picking up a share of the tab.

However, the real question is not who pays the bill, but who collects it. In one way or another, it is always the user who pays. And the bill collector will either be private enterprise charging a fee for services rendered, or the U.S. Treasury "charging" taxes that will probably have no relationship to the cost of production, the degree of use, or the requirements of profitability.

The possible answers to this question will provide the backdrop for every topic this forum considers.



So, I would like to take my time today to talk about this aspect of the energy situation and what I believe the answer must be if we are to succeed in our national energy goals.

Traditionally, we have depended on the free enterprise system to supply the nation's demand for goods and services.

Over the years this system has successfully provided the foundation for America's economic abundance and position as the leader of the free world.

Yet, in times of crisis, there are always those who -- justifiably or otherwise -- insist that free market forces must be supplemented or replaced by greater government activity.

And today, in the energy field -- where we have faced and will continue for years to confront a crisis situation -- this inclination for more government regulation, more government intrusion into the marketplace, is again asserting itself.

We have seen proposals for new or increased regulation of energy industries; and we have seen proposals for outright government assumption of various industry functions.

Now, increased government activity -- such as allocation of limited oil supplies during the embargo last year -- obviously can have a vital, necessary and proper role to play, especially in extraordinary situations. The question is: how extensive should its role be and how long should it last?



In looking for the answers, we might consider a few chapters of American history.

We might consider, for example, the chapter called "Decline and Fall of American Railroads."

Railroads are required to maintain as much as 50,000 miles of track which may no longer be needed for their operations, yet their freight rates and routes are fixed by government fiat.

The result is a loss of the very basis of free enterprise -- competition -- and an industry with financial burdens so heavy and profitability so low, that its very existence is imperiled.

These regulations -- initially established to protect shippers and consumers from the monopolistic powers of railway robber barons in the late 1800s -- have evolved into a non-competitive, price-fixing system that penalizes the very public it was originally meant to protect. Moreover, as recent railroad bankruptcies indicate, the system of management by federal fiat has handicapped and contributed to the downfall of segments of the industry itself.

In citing the evils that have befallen the railroad industry, I don't mean to point the finger of blame at the Interstate Commerce Commission or at any particular group of people. I simply want to suggest that the railroads constitute one historical example of what excessive regulation can do -- what well-intentioned government involvement can mean when it becomes too pervasive and too persistent.



And the railroads aren't alone.

Airlines and their customers have certainly felt the negative impact of regulation. Those of you who flew down to this forum from New York -- and paid a third again as much for your tickets as you would have paid to fly a non-regulated intrastate carrier almost twice as far from San Francisco to Los Angeles -- should know what I'm talking about.

And, again, like their counterparts on the rails, segments of the airline industry have experienced some of the ultimate evils of over-regulation in the financial burdens they have had to shoulder in recent years.

Finally -- not to make the list too long -- there are the effects of regulation in the field of energy. For more than two decades, for example, government regulation has placed a ceiling on interstate prices of natural gas, presumably making consumers the beneficiaries of low-cost gas.

Today, that ceiling has produced a demand for gas that cannot be met. What it has not produced is new gas to meet that demand because Federal policy has removed the incentive to tap new gas resources. So instead of being the beneficiaries of federal policy consumers are, in fact, its victims.



Now this is not to say that regulated industries have not, at one time or another, welcomed government's presence in the marketplace, in the mistaken belief that they could enjoy, in perpetuity, the benefits that regulation appeared to offer for the immediate future.

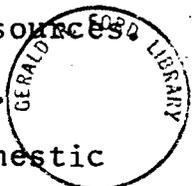
Too often industry has actually urged government intervention as a means of avoiding the rigors of competition. And, too often, the result has been the loss of those very virtues that the free enterprise system inspires and that redound to the benefit of society as a whole: diversity, initiative and efficiency.

But, regardless of industry's complicity in weaving the web of government regulation in the marketplace, the simple truth remains that a free and open economy is the most responsive and most productive economy yet devised. And a restricted and closed economy -- bound up in a mass of government regulation -- is an economy operating on half of its cylinders.

Increasingly, the drag that undue regulation places on our economic system is being recognized and criticized by senior officials in government -- including many of those who run regulatory agencies -- and by public spokesmen.

And what does this mean in regard to the energy crisis?

Well, the major fact of energy life for the next decade is the need to reduce our dependence on foreign energy sources. And that means conservation, which can help us buy time. And, ultimately, that means increased development of domestic energy resources, which can restore our self-sufficiency.



Given those facts of life -- given those necessary, unavoidable goals -- how should this Nation respond? With more Rube Goldberg regulation, which would, progressively, knock out the fourth, then the third, and then the second cylinder -- leaving us crawling along at a fraction of our capacity? I think not.

Rather, we should respond in the way that history makes obvious: we should harness the great potential of the free enterprise system and give it its head to run another of those long and hard courses that it has run so often and so successfully in the past. In other words we ought to free, not fetter, the resources, the expertise, the drive for excellence and -- yes, the profit motive -- of the private sector to maximize our domestic energy potential.

That means, in my judgment, the untying of a lot of regulatory knots that -- regardless of their original justification -- are now impeding development of our domestic resources.

It means, among other things, returning to free market pricing, so that the costs of energy reflect its true value and so that energy producers are encouraged to expand production.

It means, among other things, unraveling red tape procedures that now hamper -- and in some cases severely jeopardize -- the utilities.



It means, in short, shedding a whole host of cumbersome restraints that are now costing the American people -- American consumers -- tens of billions of dollars for imported energy and is costing their government -- and them -- freedom from the threat of arbitrary foreign disruption of our energy supplies.

Now, I am not proposing a one-way street for Big Oil, the utilities or anyone else in the energy business.

Up until now my remarks may have sounded like hard-line laissez faire dogma -- the kind of thing that makes some of my old colleagues on Wall Street feel very bullish: "Let's get the government out of the marketplace and get back to good old-fashioned caveat emptor, buyer-beware economics."

But -- like coins and equations -- issues have two sides. And there is a very big caveat that has to be added to what I've said thus far.

The fact that too much government involvement in the economy can be bad -- can, in fact, be crippling -- does not mean that the government has no proper role to play. As I've already indicated, in times of severe dislocation -- such as that caused by the oil embargo -- the government must step in.



We have investigated oil producers, refiners, and marketers, propane distributors, and others. Perhaps the most conspicuous investigation lately has been the continuing probe into the pricing of fuel supplied to electric utilities, especially during the period of the 1973-74 oil embargo.

So far, we have had under investigation 250 fuel suppliers to 44 electric utilities. A total of 67 of these cases have been closed, and I would emphasize that in this series of investigations, as in others, the vast majority of the cases showed no violation of law.

Of the 67 cases closed, all but 8 were found in compliance with the regulations, and in the cases where non-compliance was found, some two million dollars has been refunded to consumers.

In addition, three cases which involved potential criminal violations on the part of fuel suppliers have been referred to the Justice Department for appropriate action, and two cases of questionable business practices by utilities have been referred to the Federal Power Commission for action.

We are now in the process of approximately doubling our staff of utility fuel supply investigators from the present level of 110.



This is just one phase of our on-going program to insure compliance with the law.

To date, our actions have resulted in direct or indirect benefits to consumers totaling more than three-quarters of a billion dollars. These have been in the form of direct refunds to consumers, rollbacks to oil suppliers which have been passed along to consumers in the form of lower prices, and disallowance of charges which might have resulted in higher fuel prices.

Those who would take advantage of the energy crisis -- private citizens and corporations alike -- must and will be exposed and fully prosecuted. If the American people are today groping their way down a dimly lit street of energy uncertainty, it is all the more reason to pinch the pickpockets along the way.

That's the FEA's mandate under the law. And that's the mandate that we will fulfill.

If there's any maxim I'm advocating today, it's not "buyer beware." It's "seller take care."

There may have been times in the past when the law was written for the benefit of industry and business at the expense of the common good. And there may have been times in the past when the law was enforced in their favor. But that was 1875 not 1975. Those are bygone days, and in this case bygones will be very much bygone.

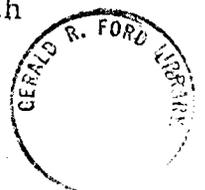


But there are other conditions which underscore the fact that 1975 is no time for business as usual -- in industry or in government. The past decade has seen a tremendous growth in social concern -- in the expectations of the American people. New standards, higher and more stringent than ever before, are being used to judge the effectiveness of our institutions.

And consistently over the past several years, public opinion polls have demonstrated that the people do not believe that we are meeting those standards, either in business and industry or in government.

This loss of public confidence has compounded the Nation's difficulties in solving its energy problems, because the solutions simply are not cheap and easy. Today, when industry tells the American people that they will have to pay higher energy bills, when government tells them that they will have to make sacrifices, their reaction too often -- given that absence of confidence -- is that the energy crisis is just another rip-off, that the robber barons are riding again and government is watering their horses.

We know that's not so. We know the energy crisis is real. We know it means higher prices and more sacrifices. And our job -- both industry and government -- is to make that case credible to the people, to restore their faith in us as their honest and competent countrymen.



That is one more reason why we in government must be tough, impartial, and scrupulous lawmen.

While the government responds to the problem of credibility by enforcement down to every comma, colon, and clause, and goes beyond the letter to the spirit of legislation, it seems to me that the response of industry and business should be similar. It seems to me -- as a one-time businessman turned bureaucrat -- that business will have to cultivate a sensitivity to popular concerns that goes beyond the concept of profit-and-loss.

And I am not talking about selflessness, but plain self-interest. When times grow difficult -- as they daily do in energy -- objectivity retreats in the face of adversity, and the tendency to blame advances in direct proportion to the hardness of the times. People begin to convict even those who are relatively guiltless.

As a result, there is a palpable and growing movement to legislate punitive measures under the guise of reform, to exact retribution in the form of correction; in short to pour government oil on troubled waters.

But in reality that kind of cure is like pouring salt into the wounds of a flogged economy. That kind of cure doesn't restore the tissue; it simply leaves scars. It is not the remedy that either the practitioners of free enterprise, or this Administration, wants to see administered. On the contrary, we need the kind of treatment that uses the basic strength of the free economic system to restore our energy self-sufficiency.



Today, we must choose a treatment. And the decisions that are made in the months to come -- both in government and in industry -- will determine the nature of the cure and the prognosis for the industry and the economy.

Hopefully, with leadership and responsiveness to the long-term, overall, public good, we will prescribe a course that, in the years and decades ahead, will permit the American people to pay for the Nation's energy, not through their W-2 and 1040 forms as taxpayers, but through independent decisions as free consumers in an open marketplace.

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