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
TO THE

SPECIAL SOUTHERN METHODIST UNIVERSITY
MANAGEMENT BRIEFING
IN THE
REGENCY BALLROOM OF THE FAIRMONT HOTEL
DALLAS, TEXAS
APRIL 2, 1975
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WEDNESDAY, APRIL 2, 1975, 1:00 PM, CDT

Dean Grayson, thanks very much for your invitation. It's a pleasure to join you and your guests today.

I want to answer as many of your questions as possible, so I will speak only briefly about the critical nature of the choices facing the country and about our desperate need for a cohesive, national energy program.

I want to speak briefly, but I also want to speak urgently.

Last January, President Ford presented Congress with a plan to reduce our vulnerability to the actions of foreign oil suppliers and, ultimately, to restore our energy independence. Few initiatives by any Chief Executive have been so comprehensive, so delicately balanced, and so carefully thought-out.

As a result of the President's energy proposals, the inertia blocking development of a national energy policy was overcome. During the last few weeks, we have seen responses from the Congress which, though inadequate at first, have provided cause for some hope.

Because of the flexibility, the economic soundness and -- in the final analysis -- the basic fairness of the marketplace, the Administration is convinced that uncontrolled domestic oil and gas prices combined with import fees and excise taxes will reduce our dependence on imported oil, and leave the American marketplace free to do what needs to be done. In short, we favor a system that will allow the price of energy to reflect its true value to the economy.

There are some who seem to disagree. They are prone to see further Government intrusion into the economy as the most desirable way to deal with our difficulties.

We have heard calls for a quota and allocation program, and demands for a federal oil import purchasing authority. These and other proposals would advance the federal government deeper into the marketplace, further into the economic decision-making that American consumers and businesses have historically exercised, freely and effectively.

I am convinced that this is one of the most crucial, and least discussed aspects of the energy crisis and its solution. The choice before us goes beyond the oil industry -- beyond energy policy. It involves the whole character of the American economy.

We are, in fact, at one of those pivotal points in history where the decisions we make will either strengthen the basic soundness of our free market economy, with its ingenuity, its flexibility, and -- not least -- its productivity, or, on the other hand, transfer even greater power to the government.

And Government control of energy is government power over "who gets what, when and where." Decisions which once evolved from vigorous competition in the market place would be made in the isolated confines of the Washington bureaucracy. And that means, ultimately, inequity, inflexibility and inefficiency.

Of course, a lot of people are saying that we don't have to do anything about energy. They are saying today that there's plenty of gasoline, that, the energy crisis will take care of itself, or that the economic climate is not right to implement an energy plan now. These are short views, advanced as a rationalization to do nothing, and they're dead wrong.

Not long ago, this country could formulate its foreign policy by consulting its own interests and those of its allies. Now it must consider -- and weigh very carefully -- the interests of others -- interests which have differed sharply from ours in the past and may well do so in the future.

Once we could handle our economic affairs with an assurance of stable supplies of vital commodities at reasonable and predictable prices. Now we must labor with the knowledge that our imported oil -- so vital to that production -- can be cut off at a moment's notice or priced at still more exorbitant levels.

A year ago, these dangers were brought home with force to the American people. The energy crisis -- years, even decades in the making -- suddenly became an every day reality: service station lines and skyrocketing utility bills became common experiences for all Americans.

Today, the threat is more subtle. But whether we choose to call it a crisis, or a problem, or a dilemma, it is no less dangerous and no less persistent. It has simply taken a different form.

A year ago, the energy crisis meant empty gas pumps. Today it means a national pocketbook which is being emptied to pay quadrupled prices for imported oil. Not as dramatic as gasoline lines, perhaps -- a bit more subtle -- but every bit as serious as the shortages of last year.

In 1970, we paid $3 billion for foreign oil. In 1974, we paid $24 billion. That means that last year we paid for foreign oil at a rate of more than $100 for every man, woman and child in the Nation. That translates, conservatively, into <u>$425</u> for every American family.

Last year the United States ran a balance of payments deficit of slightly more than $10 billion. That could have been a payment surplus of perhaps $8 billion -- even if our 1973 oil payments had merely doubled. But, they were not only doubled, but doubled again, to put this nation in debt.

Now to some people the balance of payments is a complicated creature of the economists. But in plain pay-day terms, it means dollars taken out of American pay checks and put into foreign bank accounts.

Still, there are those who have eyes and yet will not see; there are those who continue to deny the danger, defy the facts, and demand nothing more than "business-as-usual."

But, in 1974 and the years ahead, there is little political, economic, or social profit in business-as-usual, because it means doing nothing to solve our increasingly dangerous dependence on imported oil.

Doing nothing would mean, by 1977, acquiescing in a 1000 percent increase over 1970 in the annual cost of imported oil. It would mean $32 billion drawn out of the American economy and transferred to other nations in one year.

Now, we in Washington are very glib in tossing around figures like a $32 billion outflow and a 1000 percent increase.

The average American wants to know what's going to happen to the family budget. Business-as-usual means that in 1977 an American family would pay out -- and this is a conservative estimate -- an average of $575 to other countries for their oil.

Of course that is not the entire picture. International payments have been and will continue to be "recycled" -- returned to the economies from which they came.

So, some of our dollars come back to us in the form of purchases of goods and services -- food, machinery, technology, and so forth. But those same dollars can also buy companies, in whole or in part, and this dimension has led to some controversy.

Foreign investment in the United States is not an inherently evil phenomenon. But international cash flow can provide no viable, permanent solution to the energy crisis.

And, until we solve the energy crisis, we will remain vulnerable to exorbitant prices and to another embargo and cut-off of oil imports. In fact, the mere threat of another embargo is, in a way, as effective as the reality. An unsettled situation in the Middle East is, of course, reason for extra worry.

But even if the Middle East stabilized overnight, or next week, or next month, we would still face a situation in which a few nations control most of the world's oil reserves -- a control that gives them a dangerous degree of power over production and price.

Think what that kind of power could mean for the future of the United States.

In two years' time, if we do nothing, perhaps 50 percent of our petroleum supplies will be coming from overseas sources. If all those supplies were cut off, a six-month embargo would bring a $45 billion drop in the gross national product. It's difficult to say exactly how much it would increase unemployment, but it's estimated that the 1973 embargo -- which involved only 14 percent of U.S. petroleum consumption -- threw half a million people out of work.

It's been said that those who don't learn from history are condemned to repeat it. We should have learned a lot from the past 18 months -- or even the last few days -- at least enough to try to change the future.

And no nation is so capable of molding its energy future as the United States. Yes, it will require billions of dollars, but this is a multi-billion dollar country. It will require resources, but we have those in abundance. It will require some sacrifice, but we have never shrunk from that in the past.

I may have made our situation sound fairly dismal, but, in fact, the challenge we face constitutes another opportunity to demonstrate both our fundamental strength as a people and the ability of a free and unencumbered marketplace to respond creatively and productively to new circumstances.

The shape of our energy future is in our hands now. The way we -- Congress and the Administration -- act now, the initiatives we develop jointly now, the measures we enact now, will affect the security of our nation and the shape and stability of our economy for decades to come.

But it is not just 1985 or the 21st century that we're talking about. We're talking about 1975, and the necessity for prompt action today -- prompt action that will permit us to repair the immediate damage and give us the opportunity to form a more secure future for ourselves and our children.

Thank you.

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