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REMARKS BY THE HONORABLE FRANK G. ZARB
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BEFORE THE

MEETING OF TOWN HALL
BILTMORE HOTEL
RENAISSANCE ROOM
MONDAY, APRIL 14, 1975
12:00 NOON, PDT

EMBARGOED FOR RELEASE UNTIL:
MONDAY, APRIL 14, 1975, 12:00 NOON, PDT

It's good to be back on the West Coast. Even though the Cherry blossoms are back in Washington, the atmosphere in some areas of town -- especially on Capitol Hill -- is still a little wintry -- at least for those of us in the Administration who have been testifying before Congressional committees lately.

I'll make my remarks brief today, to give the greatest opportunity for your direct questions and my answers, which will be as direct as I can make them.

This group represents a broad cross-section of community and business leaders -- educators, public officials, and businessmen from all sectors. I have rarely had a chance to speak to such a comprehensive group.

All of you have a vital interest in our energy problems -- and the success with which we meet and solve those problems will affect all of us.

California, with its intensively energy-based economy, has more to gain than any other state from the success of our efforts to make this country invulnerable to foreign actions.

The Nation as a whole, and this state in particular -- will benefit greatly from a situation in which this country is once again the master of its own economic and energy destiny.



Today, let's spend a little time thinking and talking about some very unpleasant facts.

Let's talk about a country whose flexibility and effectiveness in important areas of foreign affairs is conditioned by energy supply decisions of other nations.

Let's talk about an energy economy at home that is in large part tied to such decisions overseas.

Let's talk about a land that is no longer the undisputed master of its own destiny.

Let's talk about a people who were once -- secure enough in their own borders, strong enough by themselves, and sure enough of their own material and political resources, not just to make their own way in the world, but to clear a path for others less fortunate than they.

In short, let's talk about the United States of America.

Not long ago, this country could formulate its foreign policy by consulting its own interests and the interests 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 most 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 \$425 for every American family for foreign oil in 1974.

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 only doubled. But, they were not only doubled, but doubled again, to add to this nation's 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.

It means less for laborers in Los Angeles, more for bankers in Baghdad.

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."

Doing nothing would mean, by 1977, agreeing to 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 only 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 per family to other countries for 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 control of American companies, in whole or in part.

Foreign investment in the United States is not necessarily an inherently evil phenomenon. But the magnitude of these international cash flows makes it clear that this kind of recycling can provide no viable, permanent solution to the energy crisis.

Recycling may be necessary crisis management, but it is not crisis solution.

Until we solve the energy crisis, we will remain vulnerable to exorbitant prices and to another embargo and cut-off of oil imports and the resulting economic disruptions. In fact, the mere threat of another embargo could be, in a way, as effective as the reality.

Unless we take decisive steps to protect ourselves now, the gravity of that threat and the potential impact of an actual embargo will grow with each additional barrel of oil we import.

Let's see what that means for the future.

In two years' time, if we do nothing, almost half 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.

And the price of imported oil will continue to increase. Those who think that the OPEC countries will drop their oil prices significantly are -- quite frankly -- dreamers.



The cartel is not about to break up. If we do not demonstrate to the oil-producing countries -- and to the world -- that we are serious about conserving energy to cut our imports, and about developing our own domestic energy supplies to meet our future needs, the price of imported oil could well increase markedly between now and 1977.

The international credibility of our nation is at stake. The President's energy proposals are a challenge to all of us to reach the point by 1985 where our nation is no longer vulnerable to foreign actions which imperil our energy supply or our international balance of payments.

It is a challenge we can and must meet.

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 -- 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 cost billions of dollars, but this is a trillion-dollar economy. 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 our fundamental resilience and strength as a people.

The shape of our energy future is in our hands now. The way we -- the 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 stability of our economy for decades to come.

But it's not 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 immediate damage, and give us the opportunity to form a more secure future for our children.

I'm slightly encouraged by what's been done so far.



In January, for the first time in history, a national energy policy was proposed. President Ford's leadership and his willingness to make difficult choices have given the country its first truly comprehensive policy -- to reduce consumption, to stimulate the production of conventional fuels, and to expedite the development of more advanced energy technology.

As a result of the President's energy proposals, the inertia that had been blocking the 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.

We have seen the first indications that Congress recognizes the urgent need for a significant increase in the value of energy to reduce consumption and promote production. It has become increasingly clear that our major differences are over timing and degree.

And that's good news because these questions can be resolved the same way Americans have always adjusted their differences -- through debate, compromise and conciliation. The Administration will continue now, as it has in the past, to join in the process.

But what is not open to compromise can be summed up easily. Our goals must be: to stop the dangerous growth of our vulnerability to foreign oil suppliers and stop that growth now, to become significantly invulnerable by 1985, and to accomplish these objectives in the fairest and most equitable manner.

Having said that, let's see, in a general way how the approaches of Congress and the Administration compare.

The Administration plan -- relies primarily on the free market mechanism, balances every element of the program in terms of barrels of oil produced, saved, and consumed, it integrates all of our energy initiatives into an overall economic structure.

Because of the flexibility, the economic soundness and -- in the final analysis -- the basic fairness of the marketplace, it must be used in any solution.



The Administration prefers to combine uncontrolled domestic oil and gas prices with import fees and excise taxes to achieve the necessary savings. In short, we prefer a system that will allow the price of energy to reflect its true value to the economy.

But then there are many who are prone to see Government intrusion into the economy as the desirable way to deal with our difficulties.

Some, for example, would establish a federal purchasing system for all oil imports. This would be a major step in the direction of greater government control over the entire energy industry and would involve many of the bureaucratic disadvantages of quotas and allocations.

Whether such a system would place any significant pressure on the world price of oil is also open to question. There are those who believe that a federal purchasing authority would drive the cartel even closer together and, therefore, generate higher prices over the long-term.

Well, these are some of our differences. But they are fewer now than when the President first proposed his energy policy. And the remaining areas of disagreement will continue to narrow, as Congress and the Administration explore more of the common ground of compromise.

Each branch of Government has approached this ground from a different quarter. But Congress has since covered much of the same territory that the President has previously surveyed. They've seen how difficult it is to cross. And now there is a growing realization that one of the few reliable charts available is the one offered by the President.

If we succeed in reaching a viable agreement soon, the beneficiaries will be today's Americans and the Americans of many decades to come. If delay continues, the losers will be the consumers, workers, farmers, and taxpayers -- everyone in the country -- today, five, ten and twenty years from now.

We can no longer afford the luxury of inaction. Debate is valuable and productive. But endless debate means endless inaction. And that is just too costly for America and America's tomorrow.

Thank you.

