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The Seven Truths of Energy

Remarks by Frank G. Zarb  
before the  
Federal Bar Association Annual Convention  
Council on Younger Lawyers  
Awards Luncheon



Thursday, September 11, 12:00 Noon

TRUTH NUMBER ONE: THE ENERGY CRISIS IS REAL.

We got used to having cheap energy on hand -- to use or waste as we pleased. We got so used to it, in fact, that we sold out and abandoned our own resources in order to get bargain basement oil from unreliable foreign sources.

That seemed to make sense while the United States still had surplus domestic oil capacity to fall back on, and while American-based corporations ruled the international roost in oil. But things have changed.

The United States is no longer the world's foremost oil producer, and other nations now have the upper hand in the oil export trade.

That upper hand, in effect, gives them a carte blanche on the American economy, and they have used their new drawing rights with increasing confidence. In 1970 about 4 billion dollars were paid to foreign oil producers. By 1974, that toll had soared to \$25 billion. If it had stayed in our own economy, the same sum could have paid the salaries of a million and a half American workers.



TRUTH NUMBER TWO: OPEC WILL NOT JUST GO AWAY.

The Organization of Petroleum Exporting Countries is the business agent of the oil producers. It's a cohesive, efficient cartel, and it's there to maximize profits. It's also a monopoly, which has managed to corner its market -- which is us. And anyone who thinks that if we do nothing but grumble and pay up, the cartel will do us a favor and disappear, had better learn to love being cornered, because that's the way we'll stay -- economically and politically -- until we take some sort of action.



TRUTH NUMBER THREE: IT'S NOT WHETHER OIL PRICES WILL BE DECONTROLLED BUT WHEN.

If we do not lift price controls we will continue to lose domestic production at a rate of 500,000 barrels a day per year, while our consumption continues to rise. We'll be compelled to fill the gap with more insecure, high-priced foreign oil. In effect, the oil-producing countries will decontrol our prices for us, without any thought of returning money to low and middle income Americans as the Administration has proposed.



TRUTH NUMBER FOUR: ENERGY AND THE ENVIRONMENT CAN COEXIST

We are going to have to have coal, nuclear power, oil shale and additional oil and natural gas from Alaska's North Slope and the Outer Continental Shelf. But we can develop those resources and still preserve the environment -- if people will sit down and discuss objectives across a conference table instead of through press releases, and try communicating before they polarize and politicize the issues.



TRUTH NUMBER FIVE: THERE IS NO EASY WAY OUT.

We've essentially got just one option for getting ourselves out of that corner. We've got to establish a policy to reduce our reliance on imported oil by making our consumption more efficient and by supplying more of our own needs without sacrificing our economic freedom.

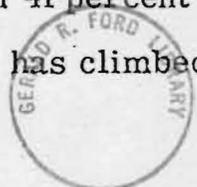
Most forms of energy are costly to produce, and those that are not are growing scarcer by the day. That means that energy is valuable.

Not to accept its true value -- which is what we're doing when we keep prices artificially low by regulating them -- is simply to postpone our day of reckoning -- and making that ultimate adjustment all the more difficult, painful and costly.

But if we allow price to reflect the economic facts of energy, then consumers -- both industry and individuals -- will begin to react to reality. They will use their heads before they use their air conditioners, and they will begin to use energy efficiently in the home, in the factory and on the road.

The manager of a factory will be able to decide between a more expensive, but more efficient machine, and one which might seem a bargain at first, but will cost more and more each month when the electric bill comes due.

Detroit will increasingly see the wisdom of producing cars that will get us where we need to go without emptying the gas tank every 200 miles. In fact, this is already beginning to happen. Over the last two years the more efficient compact and subcompact cars have gone from 41 percent of the market to 54 percent. Average mileage for new cars has climbed



(Truth Number Five continued)

from 14 miles per gallon to better than 17. The 520,000 barrels of gasoline consumed daily by new cars in 1973 has fallen steadily, and is expected to drop to 385,000 barrels a day by 1977.

And the thing that has brought about those gains has been the market. The consumer in the showroom is no longer so dazzled by size or so thrilled by horsepower under the hood. He is aware of what it costs to feed all that excess power and drag that huge fusilage around the streets. And he is making his awareness known to the people who make and sell cars.

That is the way a free society operates. The only other alternative would be increasing government control and regulation.

Instead of letting the price tag warn a consumer to be cautious, we could create a bureaucracy to tell him to be. The government could tell the homeowner that he's keeping his home too cold or hot, tell the factory manager he has to buy a particular brand of equipment, or that he can't expand his business because his allotment of fuel can't be increased. You may be surprised, but all these things have been suggested in Washington, not once, but many times.

But building that kind of federally controlled system will only sink us deeper into energy dependence without meeting anybody's expectations, not to mention altering the foundations of our economic system.

Those who propose this kind of regulation are proposing a nightmare -- an expensive nightmare, made more terrifying by the government's tendency to give equal weight to political as well as economic considerations in making decisions.



(Truth Number Five continued)

Historically, government controls have always been counter-productive. The best course for government is to clear a path for consumers to make their own decisions. And we can do much to make that path smoother by reforming the tax codes and returning excess profits to consumers, as the President has suggested.



TRUTH NUMBER SIX: THE U. S. ALREADY HAS A VIABLE ENERGY PLAN,  
AND IT WAS PRESENTED IN THE STATE OF THE UNION ADDRESS ALMOST  
NINE MONTHS AGO.

To date the President's energy plan is the only comprehensive and workable solution to the problems that beset this nation. And that's not for lack of trying on the part of others. It is time -- past time -- to put politics aside and the plan into action.



TRUTH NUMBER SEVEN: THE LAST AND FINAL TRUTH, IS  
that Americans can handle the truth about the energy problem and its  
solutions a lot easier than they can handle political promises of  
cheaper energy that can't be fulfilled.

