The original documents are located in Box C17, folder "Presidential Handwriting, 4/8/1975 (2)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

Copyright Notice

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

4/8/75

THE WHITE HOUSE
WASHINGTON

Frank Zarb

Most interesting

The Washington Post

AN INDEPENDENT NEWSPAPER

Gas Prices and Jellybeans

AS THE SHORTAGE of natural gas grows more serious in the Washington area, some customers are being forced to convert to oil. Nobody converts voluntarily. The price of gas to a large customer is $1.60 per thousand cubic feet. The equivalent energy in the form of fuel oil is now up around $2.60. That difference is, in fact, the explanation of the gas shortage. There are three basic fuels. Congress insists on holding the price of gas far below the prices of oil and coal. That is the heart of the controversy over the deregulation of natural gas.

The local distributor, Washington Gas Light, has accepted no new customers for three years. The pipeline companies supplying the Washington area have cut back deliveries and, in turn, Washington Gas Light is dropping service to its interruptible customers—those that got a lower rate for signing a conditional contract. Most of them are big apartment houses and office buildings, but the list includes some schools and colleges. Next in jeopardy are the industrial customers. Some of them would have been cut off months ago if the weather had been normal. But for the second year in a row this region was lucky. It was a warm winter. What about next winter?

Gas is the cleanest of all the major fuels, and ought to be sold at a premium on environmental grounds alone. Instead, as the cheapest of the three competing fuels, it is used to fire boilers by any industry or utility that can get it. With the enormous increases in oil prices over the past two years, the disparity has become increasingly severe. By last summer, to use a standard comparison, the gas delivered to utility generators throughout the country cost only 26 per cent as much as their fuel oil. Coal cost 38 per cent as much but was rising fast, as contracts expired or were renegotiated. Soft coal went for about $5 a ton throughout the 1960s, but prices now range from $15 to $25 and are climbing. The wider the price gap between gas and the other fuels, the more severe the gas shortage will be.

It is as though Congress were keeping down the price of red jellybeans, to protect the consumers—but not the prices of black or white jellybeans which, in the current inflation, are rising. In time you would find it increasingly difficult to get red jellybeans, although there would be plenty of the others in the stores. In Congress, the defenders of the consumer would explain that the rapacious and monopolistic jellybean industry was willfully withholding red jellybeans from the public. That, of course, would be an outrage. Several senators would promptly introduce bills establishing intricate rules for allocating the dwindling national supply of the black ones as well, since they are getting increasingly popular.

In the Senate Commerce Committee, Sens. Warren G. Magnuson (D.-Wash.) and Adlai E. Stevenson (D.-Ill.) are currently drafting a bill to resolve the natural gas issue pretty much along the lines of the jellybean case. Their bill would greatly expand and refine the system of allocation and price control that is already in effect. It would extend price ceilings for the first time to gas burned within the state where it is produced. The uncontrolled intrastate prices are currently running almost four times as high as the present federal maximum for gas crossing state lines.

The Commerce Committee's draft bill is pursuing a principle that deserves attention. It would raise the present ceiling price, but deliberately keep it far below the comparable price for oil. The price of oil has been jacked up artificially high, the argument goes, by a cartel of foreign governments. If the U.S. government has lost control of oil and coal prices, why should it voluntarily permit gas prices to accompany them to such unreasonable heights? This view is not a frivolous one. It reflects a well-considered conviction that, as a matter of social justice, it is better to have shortages—managed by various allocation and rationing systems—than high prices.

But keep in mind that any price ceiling turns out to be a subsidy paid by somebody. As people in the Southwest point out, a low ceiling on natural gas means that relatively low-income states like Oklahoma and Louisiana are subsidizing the standards of living in much wealthier states of the northeast—not to mention metropolitan Washington. To help the poor and the elderly in times of rapidly rising prices, the most effective remedies are those that directly increase the amounts of money in their pockets. Straightforward income redistribution is infinitely better than trying to fiddle and distort the mechanisms for pricing each of the hundreds of commodities that are, to one degree or another, necessities of life.

The way to deal with the gas shortage is to deregulate the price. In present circumstances, it ought to be done in stages, over several years, to cushion the impact. No one can exactly say where fuel prices will be several years from now. But they certainly will not return to the level of two years ago. The basic reason for the great upswing in fuel costs is not the producers' cartel but a worldwide surge of demand for cheap fuel. Higher prices are a signal that supplies are not unlimited and we have to begin conserving. Price controls merely suppress that warning signal. Natural gas currently provides one-third of this country's energy supply. We can afford to make mistakes in our national policy on jellybeans.

THE WHITE HOUSE

WASHINGTON

April 8, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: FRANK ZARB

FROM: JERRY H. JONES

The attached was returned in the President's outbox with the following notation to you:

-- Most interesting.

cc: Don Rumsfeld