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REMARKS OF THE HONORABLE FRANK G. ZARB
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION BEFORE
THE ECONOMIC GROWTH CONFERENCE, KENTUCKY ECONOMIC
DEVELOPMENT COMMISSION, GALT HOUSE, LOUISVILLE, KENTUCKY
WEDNESDAY, AUGUST 27, 1975, 7:30 PM, EST

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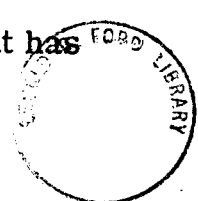
When I was a kid in Brooklyn, we used to think of the South in terms of two things -- the "black gold" in Texas, and all that real gold in Fort Knox, Kentucky.

Somebody explained to me that Kentucky didn't own the gold; that you were just "caretakers" of the nation's wealth. At the time, I thought I'd like to take care of some of it myself.

Well I'm not Secretary of the Treasury so the gold is safe. But the 1970's are changing the definition of "black gold". It's no longer oil, but also coal, and in that sense, our Fort Knox of energy has shifted from Texas to Kentucky.

In practical terms, the coal here in this state -- which accounts for almost a quarter of the country's production -- will be more valuable to us over the next decade than the gold in Fort Knox. So now you are the caretaker of the nation's financial foundation and a large part of its energy future as well.

And you have shown that that future is in good and responsible hands with some of the most far-reaching and effective energy planning that has been done so far in the United States.



You have shared your resources with the rest of us. You have managed your own local energy crisis with the coal severance tax -- refunded in part to the counties; with a State Department of Energy; with an energy Research and Development Center to administer a \$50 million dollar trust fund that you set up; and with a plan to pool natural gas for industry to meet last winter's curtailments and the shortages of the coming heating season.

That is cooperation. That is support for national needs, and effective concern for local problems. That is federalism in practical and productive terms.

And it is also an example to the rest of the country -- an example of realism, of seeing the situation as it is and not as we wish it were, of facing the truth about ourselves, about our economy, about our lifestyles, and about the future.

That is what I would like to speak to you about tonight -- reality, not just as we wish to see it, but as it is, and truth, not just as we wish it to be, but as it is.

And the first truth we had better face is that the United States, in terms of oil is not the country it once was. In 1949, in 1956, and again in 1967, shipments of Mideast crude oil to the United States were curtailed because of political motives. No one even noticed it then because the United States had surplus capacity in its oil fields.

But unfortunately, few people noticed when that surplus began to dwindle and decline, few people, that is, until 1973 when some producers did the same thing that they had done three times before. Then everybody took notice.



From secure supplies, under our own control we had begun to lean on insecure sources for 35 percent of our consumption. We went from independence to dependence in one decade -- a dependence that grows each year, in the absence of a national policy -- a dependence which now amounts to 38 percent of our consumption.

That is a fact -- unpleasant but true.

But that dependence also has other implications. If others produce the oil we consume, the price we pay to satisfy our demand is in their hands.

And in the twenty minutes, or so, that I speak to you, those hands will have pocketed a million American dollars for imported oil. That is almost \$3 million every hour, more than \$70 million dollars every day.

Compared to \$3 billion in 1970, in 1974, those same hands collected 25 billion U.S. dollars for their oil -- more than \$400 for every American family. In 1977 alone, they will collect \$32 billion even if there is no price increase by the cartel.

There is another reality behind those figures -- American jobs, American payrolls, and American workers. The money we spent for oil imports in 1974 could have paid the salaries of a million, six hundred thousand American workers or built more than 600,000 brand new homes. But it did not pay any salaries, at least not here, and it did not build anything, at least not for us.

That is reality -- unpleasant but true. And, if we continue to nothing, reality will become harsher because the Organization of Petroleum Exporting Countries (OPEC) will not disappear.



It's in business -- a very profitable business -- and they are in it to stay. They have the market -- us -- cornered and they intend to keep us there.

Like any monopoly, they intend to maximize their profits. Anyone who thinks they won't, anyone who ignores reality and dreams of the day when the cartel will disappear might as well resign himself to remaining cornered -- economically and politically.

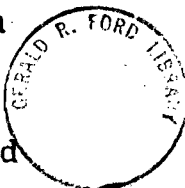
The only way to take back our own independence -- to get out of that corner -- is to establish a tough, hard program that will reduce our reliance on their product.

But we will never take even the first step out of the corner if we refuse to see reality, if we keep dreaming that nothing has changed and that somehow oil will again sell for three dollars a barrel and that the price of energy will come down.

That amounts to building castles in the air, and then trying to live in them. And anyone who promises a return to cheap energy is simply trying to help us furnish those impossible dreams.

Even if we try to live in those castles, we won't escape from reality for very long. We can keep our domestic oil relatively cheap, for example, by maintaining price controls on more than half of it.

But in the real world that means less domestic production to satisfy growing consumption. That demand will be filled by insecure, foreign sources of oil. Our consumption of imported oil will grow, and there is no way the Federal Government can control the price of oil produced in another country.



More and more exorbitantly priced oil will flow into this country. So it is not a question of whether the price of oil will go up, but when, and under whose control.

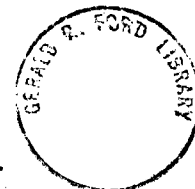
In effect, the oil producing countries of the world will decontrol our prices for us, and you can be sure that they won't offer to return the money to low and middle income Americans as the Administration has proposed.

That is reality. And if we still possess the pragmatic, pioneering courage and guts of those who settled Kentucky and the rest of the country, we will face reality and plan for the future on the facts as they are. We will stop constructing those castles in the air, and build a tough, realistic, effective policy to reduce our consumption, increase our domestic energy production from all sources, and make this country even more invulnerable than it once was.

But the key to effective action is recognizing reality: energy is scarce and that means that energy is valuable. The only successful means our society has yet developed for measuring the value of a commodity is its real price.

Simply stated, if we allow price to reflect the economic facts of energy -- that it is a scarce and valuable commodity -- then consumers, and I mean both industry and individuals, will begin to react to reality. They will begin to use energy efficiently in the home, in the factory, and on the road.

I have enough faith in the common sense of the American homeowner to know that he can tell a good deal when he sees one. Faced with the real value of energy, he will put up storm windows, add to



his insulation, and take all of those other prudent steps required to make home use of energy more effective.

Faced with that same reality, a factory manager will have to decide between a more expensive piece of machinery that uses energy more efficiently and one which may be cheaper initially, but will cost him every month when the utility bill comes in.

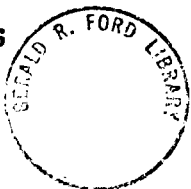
That same realism will also begin to convert our automobile industry from the production of fleets of chromium plated gunboats to efficient cars that get us where we are going without emptying the gas tank every 200 miles.

And that is not just theory, but fact.

Over the last 2 years, more efficient compact and subcompact cars have gone from a little more than 41 percent of the market, to 54 percent. Average mileage for new cars has gone from a little more than 14 miles-per-gallon in 1973 to better than 17 for the 1975 model year. The 520,000 barrels of gasoline consumed every day by new cars in 1973 has steadily declined, and is expected to drop to 385,000 barrels by 1977.

The major factor in those gains has been market demand. The consumer in the showroom is aware of the new reality. He is making his awareness known to the people who make cars. And there is no way he, or the factory manager or homeowner can make their feelings known -- no way they can even become aware of the real value of energy unless a true price tells them: "Be careful; it's scarce.

That is the only course a free society can take and still remain free. The only alternative is increasing governmental control over some of our most basic decisions.



Instead of attaching a price tag to an article to warn a consumer of what he is about to do, we can create bureaucracies to tell us that energy is scarce; to tell the homeowner that his thermostat is too low this summer; to tell the factory manager that he must buy a particular item, or that he cannot expand his business because his allocation can't be increased.

In short, we can change our economic early warning system from the free market to the bureaucrat's memo, and in so doing, alter the foundations of our free economic system.

But building that kind of federally controlled system is like adding another wing to that castle in the air that I mentioned. It won't meet anybody's expectations because some who are victimized by the control mentality assume that the government can lead us back to the dream land of cheap energy.

The truth is that those who call for controls, whether an allocation system, or continued regulations on the price of oil and natural gas, are proposing a nightmare -- an expensive nightmare made even more frightening by the government's tendency to give at least equal weight to political as well as economic profit in making decisions.

The best course for government is to clear a path for consumers so that they can make their own decisions. But we can make that path smoother by reforming the tax codes and returning excess profits to consumers, as the President has proposed, so that low and middle income Americans don't carry the burden.

Now I have talked about reality, and probably made it sound pretty grim. But the energy realities of America are also encouraging.



Unlike most of the world's other countries we do have the resources to replace our oil imports.

We can develop additional energy supplies under our own control: more oil and natural gas from the Outer Continental Shelf, Alaska and the Naval Petroleum Reserves.

But there is some oil which will never be produced if we continue to impose an artificial price. I'm talking about the oil in fields that existed in 1972 and before.

Some of those fields could be abandoned with more than half the oil still in the ground. Getting it out requires sophisticated, expensive technology -- techniques that cost more than the oil can be sold for under controls.

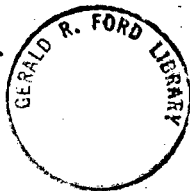
Remove those controls and that oil will be produced. So free oil prices are not just a conservation measure; they mean more supply -- nearly a half billion barrels of oil produced in this country in 1985.

Besides oil, we have nuclear power which must be transformed from a promise to a reality. We have a trillion dollar economy and the inventive genius to develop and use the advanced energy forms: solar, geothermal, wind and fusion.

Finally, there is coal -- half a trillion tons of it. As you know, we intend to see coal production doubled by 1985.

But we cannot ask an industry to produce without a market. To achieve the coal productivity that we'll need by 1985, we are going to have to ensure that there is a dependable growth in demand.

Ironically, the chief obstacle in our path is a government policy.



In pursuit of an objective that is perfectly valid in its own right, the Federal Government has imposed restrictions on the burning of coal that may wind up reducing the amount that can even be mined. I am speaking of the Clean Air Act as it presently stands.

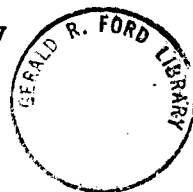
The Clean Air Act has made a great contribution to the welfare of this country's citizens by reducing pollution from all major sources. But in some parts of the nation, the environmental restrictions on burning coal are more stringent than is necessary for the protection of public health. As stricter requirements and new deadlines in the Act come into effect, this situation will become more widespread.

This situation also ignores reality. The truth is: the Administration's energy program -- whether it's the Clean Air Act Amendments or the postponement of stricter automobile emission standards -- is consistent with improving the quality of our environment.

There is no excuse for polarizing energy and the environment by taking extreme and impossible positions. Reason and a willingness to sit down and discuss objectives can result in productive policies for both interests.

For example, the President's proposed amendments to the Act are not made on the recommendation of his energy advisors alone. They were worked out jointly between FEA and the Environmental Protection Agency, in a manner which balances the goals of energy production and air quality, and attains both.

If Congress will pass the proposed amendments to the Clean Air Act, as well as the other elements in the Administration's program,



then the future of the coal industry, and of the country will be brighter than ever before. And if industry acts as responsibly with regard to the needs of the country -- including its environmental needs -- as it does in the pursuit of its own goals, then a climate of confidence will develop both inside and outside the industry -- a climate that will hasten the achievement of our energy goals and alleviate the capital constraints of future development.

And that future is promising in many ways for the industry and for the nation. With oil and natural gas dwindling, coal will begin to replace them as the economic feasibility of gasification and liquefaction techniques is demonstrated. Those processes will also produce chemical feedstocks.

Coal gasification and liquefaction will account for eight percent of our consumption by 1985, and will make a major annual contribution by the year 20

You can see it beginning to happen here in Kentucky. As you may already know, the tests and studies for a demonstration plant to produce pipeline quality gas from this State's coal is practically complete.

When it comes to the future of coal, when it comes to the future of the country, we have reason to feel confident and hopeful. But both those feelings will be hollow not too many years from now if the truth -- the grim side as well as the bright -- is hidden from the American people.

I've talked tonight about realism, and that realism boils down to 8 truths.

Truth Number One:

We got into this problem over ten years. It will take time and a solid policy to come out of it.



Truth Number Two:

OPEC is here to stay and our continued inaction can only encourage them to raise prices even more.

Truth Number Three:

As a nation, we became accustomed to cheap energy, abandoned our own resources, such as coal, and relied on unstable, foreign sources. The era of cheap energy is over, and it's time to rely on ourselves again.

Truth Number Four:

We have two choices: do nothing and watch the oil producers decontrol our prices for us, or take our own destiny in our own hands, and adopt a firm clear energy policy that preserves our free society, economy and national security.

Truth Number Five:

That policy should effectively reduce our consumption, and stimulate production from our own resources.

Truth Number Six:

Realize that there is no "free lunch", and that we will have to sacrifice.

Truth Number Seven:

We can have energy and a better environment.

Truth Number Eight:

The American people want the hard truth.

I have enough confidence in the American people to know that if they are presented with the truth, they will respond as they always have to crises in the past. If they are asked to sacrifice equally with their fellow-citizens, they will do so.



Even now they are asking for the truth -- hard, plain and unadorned. True leadership means presenting that truth without fear and calling for that sacrifice, not asking people to be content with political vagaries full of promises that cannot be kept.

The Bible says: "The truth shall make you free." That is equally true in this context. Our economy and our national security will remain in our own hands, and we will free ourselves from our dependence on other nations if the people of the United States know the truth. Thank you.

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