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STATEMENT OF FRANK G. ZARB
ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION
BEFORE THE
JOINT ECONOMIC COMMITTEE

FEBRUARY 27, 1975

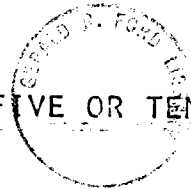
ON
ECONOMIC IMPACT OF PRESIDENT'S
ENERGY PROGRAM



MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THE PRESIDENT'S ENERGY PROGRAM AND ITS ECONOMIC IMPACT.

I'M SURE THAT WE ALL AGREE THAT THE PRESENT ENERGY SITUATION REQUIRES BROAD, DECISIVE AND PROMPT GOVERNMENT ACTION TO PREVENT CONTINUED EROSION OF OUR ECONOMIC VITALITY AND NATIONAL SECURITY. THE CHALLENGE WE JOINTLY FACE IS TO PROMPTLY IMPLEMENT A COORDINATED NATIONAL ENERGY POLICY WHICH RESTORES OUR ENERGY INDEPENDENCE.

THE SCOPE OF THE TASK SUGGESTS ITS WIDE-RANGING AND LONG-LASTING SIGNIFICANCE. THE LIVES OF THE AMERICAN PEOPLE -- INDEED, THOSE OF THE PEOPLE OF MUCH OF THE WORLD -- WILL BE SERIOUSLY AFFECTED BY WHAT WE DO, OR FAIL TO DO, IN THE DAYS AHEAD. AND THEY WILL NOT BE AFFECTED JUST FOR FIVE OR TEN YEARS, BUT FOR GENERATIONS TO COME.



OUR ECONOMIC SYSTEM IS STRONG AND RESILIENT. HOWEVER,
THE IMPACT ON OTHER COUNTRIES MUCH MORE DEPENDENT ON OIL IMPORTS
HAS BEEN CORRESPONDINGLY GREATER. THE UNITED STATES CAN BE
PROFOUNDLY AFFECTED BY SEVERE ECONOMIC CRISIS ABROAD. WE
MUST SHOW OUR LEADERSHIP AMONG THE INDUSTRIALIZED NATIONS
AND DEMONSTRATE OUR WILLINGNESS TO TAKE THE HARD AND EXPENSIVE
STEPS IN ENERGY CONSERVATION AND DEVELOPMENT OF NEW ENERGY
RESOURCES. THE PRESIDENT'S PROGRAM IS AN OUTSTANDING EXAMPLE
TO OTHER COUNTRIES OF AMERICA'S DETERMINATION TO REVERSE THE
TREND TOWARDS DEPENDENCY. REDUCING OUR VULNERABILITY TO
SUPPLY INTERRUPTION AND PRICE MANIPULATION MUST BE GIVEN THE
HIGHEST PRIORITY.

THE PRESIDENT HAS PRESCRIBED TOUGH ACTION TO CURE OUR

ENERGY ILLS. HE HAS OUTLINED THREE, TIME-PHASED GOALS.

ONE: IN THE SHORT-TERM, A CUT IN OUR OIL IMPORTS OF

1 MILLION BARRELS PER DAY BY THE END OF THIS YEAR

AND OF 2 MILLION BARRELS PER DAY BY THE END OF 1977.

TWO: BY 1985, IMPORTS OF NO MORE THAN 3-5 MILLION

BARRELS PER DAY -- AND THE CAPABILITY OF

IMMEDIATELY REPLACING THAT AMOUNT FROM STORAGE AND

STANDBY MEASURES IN THE EVENT OF A SUPPLY DISRUPTION.

THREE: ACCELERATED DEVELOPMENT OF ENERGY TECHNOLOGY AND

RESOURCES SO THAT THE UNITED STATES CAN MEET A

SIGNIFICANT SHARE OF THE ENERGY NEEDS OF THE FREE

WORLD BY THE END OF THIS CENTURY.

ACTIONS TO MEET THE SHORT-TERM GOAL

IN THE FIRST CRUCIAL YEARS, THERE ARE ONLY A LIMITED NUMBER OF ACTIONS THAT CAN INCREASE DOMESTIC SUPPLY. WE MUST DEVELOP AND INCREASE PRODUCTION FROM THE ELK HILLS, CALIFORNIA, NAVAL PETROLEUM RESERVE. THE PRESIDENT HAS SUBMITTED LEGISLATION FOR THIS PURPOSE.

THE ADMINISTRATION HAS ALSO SUBMITTED A SET OF COMPREHENSIVE AMENDMENTS TO THE ENERGY SUPPLY AND ENVIRONMENTAL COORDINATION ACT OF 1974 TO ULTIMATELY INCREASE THE NUMBER OF OIL BURNING FACILITIES THAT CAN BE CONVERTED TO COAL IN THE COMING YEAR.

THESE ARE THE ONLY SUPPLY ACTIONS THAT CAN HAVE MUCH EFFECT DURING THE NEXT TWO TO THREE YEARS. THEREFORE, WE MUST



RELY HEAVILY ON ENERGY CONSERVATION AND IT IS CLEAR FROM OUR EXPERIENCE THAT VOLUNTARY CONSERVATION MEASURES ARE NOT ADEQUATE TO DO THE JOB. WE CANNOT WAIT MONTHS OR YEARS FOR LONG-TERM CONSERVATION MEASURES TO ACHIEVE OUR NATIONAL GOALS. THEREFORE, AS YOU KNOW, THE PRESIDENT HAS RAISED THE COST OF ALL IMPORTED PETROLEUM PRODUCTS BY IMPOSING A \$3 PER BARREL IMPORT FEE AS A FIRST STEP TO REDUCING DEMAND. THIS FEE BEGAN FEBRUARY 1, AND WILL BE APPLIED IN THREE CONSECUTIVE MONTHLY \$1 INCREMENTS. THE REVENUES RAISED THEREBY WILL BE RETURNED TO THE ECONOMY THROUGH THE PRESIDENT'S RECOMMENDED TAX PROGRAM.

I WANT TO EMPHASIZE THAT THESE INCREASED IMPORT FEES ARE ONLY TEMPORARY AND WILL BE ADJUSTED TO \$2 WHEN CONGRESS ENACTS THE PRESIDENT'S COMPREHENSIVE TAX LEGISLATION WHICH INCLUDES



AN EXCISE TAX OF \$2 PER BARREL ON ALL CRUDE OIL AND PETROLEUM PRODUCTS.

TO EASE THE IMPACT ON REGIONS HEAVILY DEPENDENT ON IMPORTED PETROLEUM PRODUCTS, SUCH AS THE NORTHEAST STATES, THE PRESIDENT'S PROGRAM PROVIDES FOR A MUCH LOWER FEE RATE ON PRODUCTS THAN ON CRUDE OIL.

IN ADDITION, A PROPOSED EXCISE TAX OF 37¢ PER THOUSAND CUBIC FEET ON ALL NATURAL GAS WOULD BE EQUIVALENT TO THE \$2 OIL EXCISE TAX, AND WOULD, WITH DEREGULATION OF NATURAL GAS AS PROPOSED BY THE ADMINISTRATION, SERVE TO REVERSE THE TREND OF DWINDLING NATURAL GAS RESERVES, UNEMPLOYMENT DUE TO CURTAILMENTS, AND PREVENT INDUSTRIAL SWITCHING FROM OIL TO ALREADY SCARCE NATURAL GAS.



IN ADDITION, THE PRESIDENT WILL TAKE STEPS TO ADMINISTRATIVELY DECONTROL THE PRICE OF OLD DOMESTIC CRUDE OIL ON APRIL 1.

ACCORDINGLY, CONGRESSIONAL ENACTMENT OF THE WINDFALL PROFITS TAX BY THAT TIME IS URGENTLY REQUIRED TO PREVENT EXCESS PROFITS ACCRUING TO THE INDUSTRY. HOWEVER, CARE MUST BE TAKEN TO INHIBIT THE NEEDED AMOUNT OF CAPITAL REQUIRED TO FIND AND DEVELOP NEW OIL AND OTHER CONTIGUOUS ENERGY SOURCES.

A PROGRAM OF INCOME TAX REDUCTIONS AND REBATE MEASURES TO RETURN TO THE ECONOMY THE ROUGHLY \$30 BILLION ESTIMATED TO BE RAISED THIS YEAR THROUGH THESE PROVISIONS HAS BEEN PROPOSED.


MOST OF THIS MONEY IS TO BE RESTORED DIRECTLY TO CONSUMERS, WITH SPECIAL MEASURES TO PROVIDE FUNDS FOR THE POOR.



THE USE OF IMPORT FEES, EXCISE TAXES AND DECONTROL OF OIL PRICES TO FOSTER LARGE-SCALE ENERGY CONSERVATION HAS ATTRACTED MUCH ATTENTION AND CRITICISM.

I WOULD LIKE, THEREFORE, TO SPEND A FEW MOMENTS DISCUSSING ALTERNATIVES. FIRST, THERE IS THE ALTERNATIVE OF DOING NOTHING. NO ACTION ONLY POSTPONES THE TOUGH DECISIONS WE HAVE TO MAKE. WITHOUT CONSERVATION, OUR TAB FOR IMPORTED OIL, WHICH WAS \$3 BILLION IN 1970, AND \$24 BILLION LAST YEAR (1974), WOULD REACH \$32 BILLION IN 1977. A BRIEF RESPITE OF A YEAR OR SO WILL ONLY INCREASE THE VULNERABILITY OF THE WORLD TO A CRIPPLING EMBARGO BY THE PRODUCERS.

THE ARAB EMBARGO OF 1973 RESULTED IN A SIGNIFICANT DROP IN OUR GROSS NATIONAL PRODUCT AND THE UNEMPLOYMENT OF PERHAPS



ONE-HALF MILLION MEMBERS OF OUR LABOR FORCE. TODAY, EVEN MORE OF OUR IMPORTS ARE COMING FROM AFRICA AND THE MIDDLE EAST THAN DID A YEAR AGO. NOW OVER HALF OF OUR PETROLEUM IMPORTS COME FROM SOURCES OUTSIDE OF THE WESTERN HEMISPHERE. AND, UNLESS WE DO SOMETHING, THIS DEPENDENCE ON AFRICAN AND MIDDLE EASTERN SOURCES WILL CONTINUE TO GROW. BY 1977 IMPORTS WILL REACH 8 MILLION BARRELS PER DAY, AS COMPARED WITH 6 DURING THE LAST EMBARGO. BECAUSE ALL OF THE INCREASE WILL COME FROM INSECURE SOURCES, WE MAY WELL BE JUST AS VULNERABLE AS WE WERE LAST WINTER. THIS IS SIMPLY UNACCEPTABLE.

EVERY MONTH WE HESITATE WILL MAKE IT THAT MUCH HARDER TO ACHIEVE OUR 1985 GOALS. THOSE WHO SAY ACTION IS TOO EXPENSIVE SHOULD REFLECT ON THE FUTURE COST TO THE NATION IF WE DO NOT ACT EXPEDITIOUSLY.

THERE ARE THOSE WHO BELIEVE THAT RAISING PRICES OF ENERGY AT HOME WILL NOT HELP US CUT BACK ON CONSUMPTION. THEY ARE WRONG. WHILE A COMPARISON OF OUR PRESENT CONSUMPTION WITH THAT OF LAST YEAR'S SHOWS THAT WE ARE ACTUALLY USING SLIGHTLY MORE NOW, MORE IMPORTANTLY, WE ARE USING MUCH LESS THAN WE WOULD IF PRICES HAD NOT RISEN 400 PERCENT IN THE LAST YEAR. THIS IS A CLEAR DEMONSTRATION OF PRICE ELASTICITY OF DEMAND, OR CONSUMPTION OF CERTAIN ITEMS DECREASING AS THEIR PRICES RISE RELATIVE TO OTHER PRICES. PRESENT CONSUMPTION WOULD HAVE BEEN AT LEAST 1 MILLION BARRELS A DAY MORE IF PRICES HAD NOT RISEN SO SHARPLY. FURTHERMORE, ALTHOUGH THE CARTEL HAS CUT BACK ON PRODUCTION BY ABOUT 9 MILLION BARRELS A DAY, THERE IS STILL A SURPLUS OF OIL ON THE WORLD MARKET. THERE IS CONCRETE EVIDENCE ALL AROUND US THAT PRICE IS INDEED EFFECTIVE IN REDUCING DEMAND.

THE OTHER ALTERNATIVE TO INACTION IS THE GREATER USE OF GOVERNMENT CONTROLS -- WHETHER IMPORT QUOTAS, ALLOCATION SYSTEMS OR RATIONING, OR ON ANOTHER LEVEL, SUNDAY CLOSINGS OF GASOLINE STATIONS, NO DRIVING DAYS, ETC. WE LOOKED AT ALL OF THOSE LAST YEAR DURING THE EMBARGO. WE CHOSE SOME AND REJECTED OTHERS. AND OUR REASONING FOR CHOOSING THOSE FEW CONSERVATION MEASURES WAS GOOD FOR A SHORT-TERM CRISIS. WE NOW FACE A LONGER-TERM ONE. EACH OF THESE ALTERNATIVES WOULD INVOLVE SOME FORM OF SELF-IMPOSED SHORTAGES AS WELL AS BUILT-IN INEFFICIENCIES, BURGEONING BUREAUCRACIES AND REGULATORY PROLIFERATION AND DISRUPTIONS IN THE LIVES OF ALL AMERICAN CITIZENS. AND REMEMBER, TO BE EFFECTIVE, CONTROLS MUST BE IN PLACE FOR A LONG-TERM OF UP TO TEN YEARS. I DOUBT THAT



AMERICAN PEOPLE WOULD BE WILLING TO PUT UP WITH SUCH ALTERNATIVES
NOR SHOULD WE SUBJECT THEM TO THIS LONG LASTING PERVASIVE CONTROL
CONTROL OVER ALMOST EVERY ASPECT OF THEIR LIVES. FURTHERMORE,
MOST OF THE CONTROLS WOULD INVOLVE HIGHER COSTS TO EVERYONE.
GASOLINE TAXES, FOR EXAMPLE, WOULD HAVE TO BE INCREASED ABOUT
40¢ PER GALLON TO SAVE 1 MILLION BARRELS OF OIL PER DAY.

INSTEAD, THE CRUDE OIL PRICE INCREASE, DISTRIBUTED ACROSS ALL
OF THE PRODUCTS FROM A BARREL OF OIL, WILL RAISE THE PRICE
OF GASOLINE ABOUT 10¢ TO 15¢ PER GALLON. THIS SEEMS A MORE
EFFECTIVE AND MORE EQUITABLE SOLUTION.

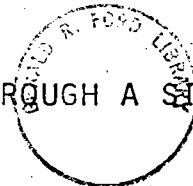
I THINK IT'S UNNECESSARY FOR ME TO DWELL ON THIS AT ANY
GREATER LENGTH. SUFFICE IT TO SAY, WE SHOULD ALLOW THE FREE
MARKET TO WORK TO THE MAXIMUM EXTENT POSSIBLE. THIS IS WHAT
THE ENERGY CONSERVATION TAXES AND FEES WOULD DO.
REBATES WOULD ASSURE NO SIGNIFICANT LOSS OF CONSUMER PURCHASING
POWER OR ECONOMIC IMPACT.



MID-RANGE (1975-1985)

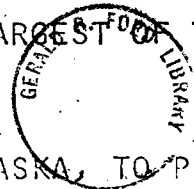
THE SECOND OF THE GOALS ADDRESSED IN OUR ENERGY PROGRAM IS THE ELIMINATION, BY 1985, OF OUR NATION'S VULNERABILITY TO ECONOMIC DISRUPTION BY FOREIGN SUPPLIERS. IN OTHER WORDS, BY THEN OUR PETROLEUM IMPORTS SHOULD AMOUNT TO ONLY 3-5 MILLION BARRELS PER DAY OF OUR CONSUMPTION, AND WE SHOULD BE ABLE TO IMPLEMENT STANDBY EMERGENCY MEASURES AND DRAW FROM STORAGE ENOUGH TO OFFSET A COMPLETE CUTOFF OF THESE REMAINING IMPORTS.

TO ATTAIN SUCH A GOAL, WE MUST START IMMEDIATELY TO REMOVE CONSTRAINTS AND PROVIDE NEW INCENTIVES FOR DOMESTIC PRODUCTION AND CONSERVATION BECAUSE MOST OF THE MEASURES WILL TAKE 5-10 YEARS TO REACH FRUITION AFTER THE NECESSARY LAWS ARE ENACTED, AND ALL OF THESE THINGS MUST BE ACCOMPLISHED THROUGH A SINGLE PROGRAM THAT HAS THE BALANCE TO BRING ABOUT THE REQUIRED REDUC-



TION IN OUR ENERGY USE, THE NECESSARY INCREASE IN OUR DOMESTIC PRODUCTION, AND -- EQUALLY IMPORTANT AMONG OUR NATIONAL GOALS -- THE CONTINUED ECONOMIC WELL-BEING, ENVIRONMENTAL QUALITY, NATIONAL SECURITY, AND SOCIAL WELFARE THAT THE AMERICAN PEOPLE DEMAND AND DESERVE. THERE IS NO PIECEMEAL PROGRAM WHICH CAN PROVIDE THE BALANCE THAT IS REQUIRED. HARD DECISIONS MUST BE MADE FROM THE VERY OUTSET WITHIN THE FRAMEWORK OF OUR OVERALL STRUCTURE.

THE PRESIDENT HAS REAFFIRMED THE INTENT OF THIS ADMINISTRATION TO MOVE AHEAD WITH EXPLORATION, LEASING AND PRODUCTION IN THOSE FRONTIER AREAS OF THE OUTER CONTINENTAL SHELF WHERE THE ENVIRONMENTAL RISKS ARE JUDGED TO BE ACCEPTABLE. HE HAS ALSO ASKED THE CONGRESS TO AUTHORIZE OIL PRODUCTION FROM THE LARGEST OF THE NATION'S NAVAL PETROLEUM RESERVES, NPR-4 IN ALASKA, TO PROVIDE



PETROLEUM FOR THE DOMESTIC ECONOMY, WITH 20% EARMARKED FOR MILITARY NEEDS AND STRATEGIC STORAGE. ACCORDING TO OUR ESTIMATES NPR-4 COULD PRODUCE 2-3 MILLION BARRELS OF OIL PER DAY AND COMMENSURATELY LARGE QUANTITIES OF GAS BY 1985.

BUT, IN ADDITION TO FINDING MORE OIL AND GAS, WE MUST TAKE ADVANTAGE OF OUR MOST ABUNDANT ENERGY RESOURCE, COAL. THE PRESIDENT VETOED THE SURFACE MINING LEGISLATION PASSED BY THE LAST CONGRESS, BUT IT REMAINS A VALUABLE PIECE OF WORK. THE PRESIDENT HAS SUBMITTED A BILL WHICH BUILDS UPON S. 425 IN SUCH A WAY AS TO MAKE IT ACCEPTABLE TO THE ADMINISTRATION. I AND OTHERS IN THE ADMINISTRATION ARE PREPARED TO WORK WITH THE CONGRESS TO ARRIVE AT A SOUND SURFACE MINING LAW.

THE CONGRESS MUST ALSO ACT ON THE ADMINISTRATION'S AMENDMENTS TO GRANT THE ENVIRONMENTAL PROTECTION AGENCY AUTHORITY



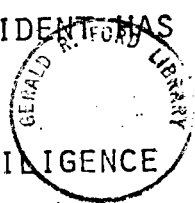
TO SUSPEND EMISSION LIMITATIONS FOR POWERPLANTS UNTIL LOW SULFUR COAL CAN BE OBTAINED OR STACK GAS SCRUBBERS CAN BE INSTALLED.

THE NATION WOULD THUS BE PERMITTED TO REAP THE ENORMOUS BENEFIT OF INCREASED USE OF DOMESTIC COAL UNDER APPROPRIATE ENVIRONMENTAL SAFEGUARDS.

THE CONGRESS SHOULD ALSO AMEND THE CLEAN AIR ACT TO DEAL WITH THE ISSUE OF "SIGNIFICANT DETERIORATION" OF AIR QUALITY.

IN THIS CASE, AS IN THAT OF THE STRIP MINING LEGISLATION, WE WANT CONGRESS, RATHER THAN THE COURTS, TO MAKE THE ESSENTIAL LEGISLATIVE DECISIONS THAT ARE REQUIRED.

TO ASSURE RAPID COAL PRODUCTION FROM EXISTING LEASES AND TO MAKE NEW, LOW SULFUR SUPPLIES AVAILABLE, THE PRESIDENT HAS DIRECTED THE INTERIOR DEPARTMENT TO ADOPT LEGAL DILIGENCE



REQUIREMENTS FOR EXISTING FEDERAL COAL LEASES AND TO DESIGN A
NEW PROGRAM FOR ACCELERATED LEASING OF FEDERAL COAL LANDS.


OF COURSE THE MARKET FOR COAL, AS WELL AS THE AVAILABILITY
OF ALL ELECTRIC POWER, DEPENDS UPON THE HEALTH OF THE ELECTRIC
UTILITIES INDUSTRY, AND WE MUST ADDRESS ITS PROBLEMS. IN
RECENT MONTHS, UTILITIES HAVE CANCELLED OR POSTPONED MORE THAN
60 PERCENT OF PLANNED NUCLEAR EXPANSION AND 30 PERCENT OF
PLANNED ADDITIONS TO NON-NUCLEAR CAPACITY. THE DELAYS AND
DIFFICULTIES THIS INDUSTRY IS CURRENTLY EXPERIENCING COULD WELL
LEAD TO HIGHER OIL IMPORT NEEDS AND INADEQUATE SUPPLIES OF
ELECTRICITY 5 TO 10 YEARS FROM NOW.

THE PRESIDENT HAS, THEREFORE, PROPOSED LEGISLATION TO
ASSIST THE ELECTRIC UTILITIES THROUGH HIGHER INVESTMENT TAX



CREDITS; MANDATED REFORMS IN STATE UTILITY COMMISSION PRACTICES;
AND OTHER MEASURES. AND TO REJUVENATE OUR DRIVE TOWARD MORE
EFFECTIVE USE OF THE POTENTIALS OF NUCLEAR POWER WE HAVE
MARKEDLY INCREASED OUR BUDGET REQUEST FOR NUCLEAR WASTE DISPOSAL
AND FOR CONTINUED IMPROVEMENTS IN SAFEGUARDS.

AS WE TAKE THESE ACTIONS TO INCREASE OUR ENERGY SUPPLIES,
WE MUST BE AWARE OF SOME POTENTIAL PROBLEMS. BEFORE WE ACHIEVE
OUR GOALS OF ENERGY SUFFICIENCY, ACTIONS OF OIL PRODUCING NATIONS,
OR ECONOMIC CONDITIONS COULD RESULT IN LOWER -- BUT UNSTABLE --
PRICE LEVELS THAT COULD WEAKEN OUR CONTINUED COMMITMENT TO
GREATER SELF-SUFFICIENCY. THE FEDERAL GOVERNMENT MUST TAKE
ACTIONS TO ENCOURAGE AND PROTECT DOMESTIC ENERGY INVESTMENT IN
THE FACE OF SIGNIFICANT WORLD PRICE UNCERTAINTY. TO FOSTER SUCH

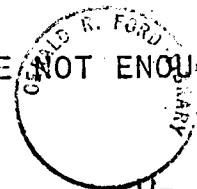


INVESTMENT, THE PRESIDENT HAS REQUESTED LEGISLATION TO AUTHORIZE AND REQUIRE THE USE OF TARIFFS, IMPORT QUOTAS OR OTHER MEASURES TO MAINTAIN ENERGY PRICES AT LEVELS THAT WILL ACHIEVE FULL NATIONAL CAPABILITY FOR SELF-SUFFICIENCY AND PROTECT OUR ENERGY INDUSTRY AND JOBS.

ALL OF THE ACTIONS I HAVE MENTIONED WOULD HAVE THE EFFECT OF INCREASING OUR AVAILABLE DOMESTIC SUPPLIES OF ENERGY. OIL PRODUCTION COULD REACH 13 OR 14 MILLION BARRELS PER DAY VERSUS APPROXIMATELY 9 MILLION TODAY, COAL PRODUCTION COULD DOUBLE AND NUCLEAR GENERATION COULD INCREASE FROM A 4 TO 30% SHARE OF OUR ELECTRIC GENERATION CAPACITY BY 1985.

BUT, AS IN THE SHORT-TERM, SUPPLY ACTIONS ARE NOT ENOUGH.

WE MUST DRAMATICALLY CUT OUR HISTORICAL DEMAND GROWTH. WE HAVE



SIGNED AGREEMENTS FROM MAJOR DOMESTIC AUTOMAKERS TO IMPROVE GASOLINE MILEAGE BY 40% ON AVERAGE BY 1980, AS COMPARED TO 1974 MODEL CARS, PROVIDED THAT THE CLEAN AIR ACT AUTOMOBILE EMISSION REQUIREMENTS ARE MODIFIED FOR FIVE YEARS.

THE ENERGY RESOURCES COUNCIL IS DEVELOPING ENERGY EFFICIENCY STANDARDS FOR MAJOR APPLIANCES AND WILL SEEK AGREEMENTS FROM MANUFACTURERS TO ACHIEVE AN AVERAGE 20% IMPROVEMENT IN EFFICIENCY BY 1980. AT THE SAME TIME, DRAFT LEGISLATION HAS BEEN SUBMITTED THAT WOULD REQUIRE LABELS ON AUTOMOBILES AND MAJOR APPLIANCES DISCLOSING ENERGY USE AND EFFICIENCY. TO MOVE QUICKLY WHERE THE PROBLEM HURTS MOST, THE FEDERAL GOVERNMENT WILL PROVIDE MONEY TO THE STATES FOR THE PURCHASE OF INSULATION AND OTHER ENERGY CONSERVING DEVICES IN HOMES OWNED OR OCCUPIED BY



LOW-INCOME CITIZENS, WHO MIGHT OTHERWISE NOT BE ABLE TO HAVE SUCH IMPROVEMENTS MADE IN THEIR HOMES. THE PRESIDENT'S PROGRAM ALSO SETS FORTH PROPOSALS TO MANDATE THERMAL EFFICIENCY STANDARDS FOR ALL NEW BUILDINGS IN THE UNITED STATES. SINCE ENERGY SAVINGS ARE EVEN GREATER FOR EXISTING HOMES IT ALSO INCLUDES A PROPOSAL TO INSTITUTE A 15% TAX CREDIT FOR INSULATION INVESTMENTS UP TO \$1,000.

THESE NUMEROUS PROPOSALS AND ACTIONS TAKEN TOGETHER, CAN REDUCE OUR DEPENDENCE ON FOREIGN ENERGY SUPPLIES TO 3 TO 5 MILLION BARRELS OF OIL PER DAY. WHILE THIS DOES NOT SEEM MUCH LESS THAN CURRENT CONSUMPTION, IT IS DOWN SUBSTANTIALLY FROM THE 12-13 MILLION WHICH WE WOULD HAVE TO IMPORT IF WE DID NOT ACT. TO ENSURE THAT WE COULD MEET ANY SUPPLY DISRUPTION OF THE REMAINING IMPORTS WE MUST



ESTABLISH LEGAL AUTHORITY FOR EMERGENCY MEASURES THAT CAN BE READILY IMPLEMENTED TO GUARANTEE THE EQUAL SHARING OF SHORTAGES AND THE EQUITABLE ALLOCATION OF SUPPLIES AT HOME, AND TO MEET OUR OBLIGATIONS UNDER THE INTERNATIONAL ENERGY AGREEMENT ABROAD. WE MUST ALSO BEGIN AS SOON AS POSSIBLE TO DEVELOP A STRATEGIC STORAGE CAPACITY OF 1 BILLION BARRELS OF OIL FOR DOMESTIC USE AND 300 MILLION BARRELS FOR MILITARY USE. ONLY BY TAKING SUCH PRECAUTIONS CAN WE ACT RESPONSIBLY BOTH AT HOME AND IN THE INTERNATIONAL COMMUNITY IN A TIME OF FUTURE SUPPLY INTERRUPTIONS.

ACTION TO MEET THE LONG-TERM (POST 1985) GOAL

FOR THE LONGER TERM, OUR GOAL IS TO SUSTAIN A POSITION OF ENERGY INDEPENDENCE, AND TO ENHANCE IT SO THAT THE UNITED STATES WILL AGAIN BE CAPABLE OF SUPPLYING A SIGNIFICANT SHARE OF THE FREE WORLD'S ENERGY NEEDS.

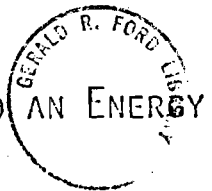


THIS MEANS THAT, AS A NATION, WE MUST REAFFIRM OUR COMMITMENT TO A STRONG ENERGY RESEARCH AND DEVELOPMENT PROGRAM, AIMED NOT ONLY AT DEVELOPING THE CAPABILITY TO TAP ALL OUR MAJOR DOMESTIC ENERGY RESOURCES BUT ALSO AT IMPROVING THE EFFICIENCY OF ENERGY UTILIZATION IN ALL SECTORS OF OUR ECONOMY.

LAST YEAR, THE UNITED STATES COMMITTED ITSELF TO A FIVE-YEAR, \$10 BILLION ENERGY-R&D EFFORT. OUR 1975 ENERGY R&D BUDGET WAS TWICE THAT OF 1974 AND THREE TIMES THAT OF 1973. IN 1976, THIS ACCELERATED EFFORT MUST CONTINUE, AND THE PRESIDENT HAS PLEDGED TO SEEK WHATEVER FUNDS ARE NEEDED FOR FUTURE R&D ACTIVITIES.

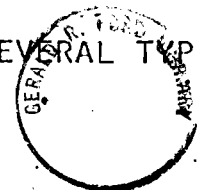
NOW THAT WE HAVE A ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION, A FEDERAL ENERGY ADMINISTRATION AND AN ENERGY

RESOURCES COUNCIL, WE HAVE, FOR THE FIRST TIME, BOTH THE UNITED



FEDERAL ORGANIZATION AND THE FINANCIAL COMMITMENT TO GET THE
JOB DONE.

BUT ENERGY R&D FUNDS AND ORGANIZATION ARE NOT ENOUGH; WE
ALSO NEED NEW INCENTIVES TO ASSURE THAT EMERGING TECHNOLOGIES
ARE NOT ONLY DEVELOPED IN THE LABORATORY, BUT BROUGHT INTO USE
IN THE MARKETPLACE. THEREFORE, THE PRESIDENT HAS ANNOUNCED A
NATIONAL SYNTHETIC FUELS PROGRAM WHICH WILL ASSURE THE EQUIVA-
LENT OF AT LEAST ONE MILLION BARRELS PER DAY IN SYNTHETIC FUELS
CAPACITY BY 1985. IT WILL ENTAIL A PROGRAM OF FEDERAL INCENTIVES
DESIGNED TO REDUCE PRICE UNCERTAINTY, RAISE CAPITAL AND OVER-
COME UNNECESSARY DELAYS IN BRINGING EXISTING OR NEARLY DEVELOPED
TECHNOLOGIES INTO COMMERCIAL USE. THE PROGRAM WILL RESULT IN
THE COMMERCIAL APPLICATION OF TECHNOLOGIES OF SEVERAL TYPES AND



THE CONSTRUCTION OF MAJOR NEW PLANTS, USING BOTH OIL SHALE AND COAL RESOURCES.

I WOULD NOW LIKE TO TURN TO THE EFFECTS OF THE PROGRAM AS A WHOLE ON THE ECONOMY. IN LOOKING AT THE ECONOMIC COSTS OF THE PROGRAM IT IS IMPORTANT THAT WE KEEP IN MIND THE ALTERNATIVE COSTS OF DOING NOTHING. IN THE FALL OF 1973 AND THE SPRING OF 1974 WE LEARNED THAT OUR DEPENDENCE ON INCREASINGLY LARGE AMOUNTS OF FOREIGN OIL COULD PROVE VERY COSTLY BOTH IN STRICTLY ECONOMIC TERMS AND IN TERMS OF MAINTAINING A FLEXIBLE FOREIGN POLICY. THE PRESIDENT'S PROGRAM REPRESENTS A FORM OF INSURANCE - INSURANCE THAT OUR ECONOMY WILL NEVER AGAIN FACE THIS KIND OF THREAT TO OUR POLITICAL WELL BEING. IT IS OUR CONSIDERED OPINION THAT THE LONG-TERM BENEFITS OF THE PRESIDENT'S PROGRAM FAR OUTWEIGH THE SHORT-TERM COSTS.

LET US TAKE A LOOK AT THESE SHORT-TERM COSTS AND BENEFITS. THE ECONOMY WILL FEEL THE EFFECTS OF THE PROGRAM



THROUGH MANY CHANNELS. ON THE DEMAND SIDE THE ECONOMY WILL BE STIMULATED IN MANY WAYS. THE TAX REDUCTION AND PAYMENTS TO LOW-INCOME INDIVIDUALS IN 1975 WILL PROVIDE A SUBSTANTIAL BOOST TO AGGREGATE DEMAND AND PROVIDE THE ECONOMY WITH THE KIND OF STIMULUS THAT IS NEEDED TO RETURN IT TO A POSITION OF STRENGTH. DECONTROL OF DOMESTIC CRUDE OIL PRICES, DEREGULATION OF NEW NATURAL GAS AND THE OPENING UP OF FEDERALLY CONTROLLED SOURCES OF ENERGY (OUTER CONTINENTAL SHELF, NAVAL PETROLEUM RESERVES) SHOULD LEAD TO A SUBSTANTIAL INCREASE IN INVESTMENT AND RESULT IN INCREASED EMPLOYMENT. A FINAL STIMULUS WILL OCCUR BY REDUCING OUR OUTFLOW OF DOLLARS BY REDUCING THE LEVEL OF OIL IMPORTS. INSTEAD OF BEING DRAINED FROM THIS ECONOMY THESE DOLLARS CAN BE MAINTAINED IN CIRCULATION HERE TO CREATE MORE JOBS.

OF COURSE, THERE ARE CERTAIN ECONOMIC COSTS OF THE PROGRAM, WHICH HAVE BEEN THE SUBJECT OF A GREAT AMOUNT OF



DISCUSSION. LET US FIRST TAKE A LOOK AT THE EFFECTS ON THE GNP. HIGHER OIL PRICES HAVE TWO EFFECTS ON DEMAND. THEY REDUCE REAL CONSUMPTION BECAUSE CONSUMERS WILL NOT BE ABLE TO SUBSTITUTE COMPLETELY AWAY FROM THE HIGHER COST ITEMS. MORE IMPORTANTLY, HOWEVER, THEY CAUSE THE PATTERN OF DEMAND TO CHANGE. COMMODITIES WHICH REQUIRE MUCH ENERGY TO PRODUCE OR USE WILL BECOME RELATIVELY MORE EXPENSIVE, WHILE COMMODITIES WHICH USE LESS ENERGY WILL BECOME RELATIVELY CHEAPER. IN ADDITION TO CREATING A POWERFUL STIMULUS TO CONSERVE ENERGY, COSTS ARE INCREASED IN SOME INDUSTRIES MORE THAN OTHERS. OUR STUDIES INDICATE THAT THE PAVING MIXTURES, ASPHALT FELTS, INORGANIC AND ORGANIC CHEMICALS, AIR TRANSPORTATION, CARBON-GRAPHITE PRODUCTS AND SYNTHETIC RUBBER INDUSTRIES WILL BE AFFECTED MORE BY HIGHER ENERGY PRICES THAN INDUSTRY GENERALLY. THIS WILL REQUIRE ADJUSTMENTS AND SOME TEMPORARY PROBLEMS. LET ME EMPHASIZE THAT ANY RESULTING



UNEMPLOYMENT, WHILE A VERY REAL PROBLEM, IS BOTH SMALL IN MAGNITUDE AND TEMPORARY IN NATURE. BUT LET ME EMPHASIZE THAT THE BULK OF THE CONSERVATION EFFORT WILL COME FROM A REDUCTION IN THE WASTE USE OF ENERGY BOTH BY CONSUMERS AND BY INDUSTRY. THIS WASTE CAN BE TRIMMED WITH NO INCREASE IN UNEMPLOYMENT.

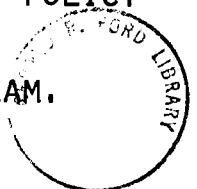
LET US NOW LOOK AT THE IMPACT OF THE PRESIDENT'S PROGRAM ON INFLATION AND UNEMPLOYMENT. OUR ESTIMATES INDICATE THAT THE ANNUAL RATE OF INFLATION AS MEASURED BY THE CONSUMER PRICE INDEX WILL RISE ABOUT TWO PERCENTAGE POINTS IN 1975. CHANGES IN 1976 AND 1977 ARE MINIMAL - LESS THAN A THIRD OF A PERCENTAGE POINT. WHILE THIS INFLATIONARY IMPACT IS IMPORTANT, IT MUST BE PUT INTO PERSPECTIVE. NORMALLY INFLATION IS A CONCERN BECAUSE IT IMPOSES HARDSHIP ON THOSE WITH FIXED INCOME; THEIR EXPENDITURES RISE BUT THEIR INCOMES DON'T. THIS IS NOT THE CASE WITH THE PRESIDENT'S PROGRAM. ALL REVENUES COLLECTED WILL BE REBATED TO THE PUBLIC, AND IN FACT, THOSE WHO WOULD BE HURT HARDEST BY INFLATION - THE



POOR AND THOSE ON FIXED INCOMES - WOULD RECEIVE MORE THAN THEY WOULD SPEND ON HIGHER ENERGY PRICES.

BECAUSE OF THE OFFSETTING INFLUENCES OF STIMULATION TO THE ECONOMY AND HIGHER PRICES, THE PRESIDENT'S PROGRAM IS EXPECTED TO HAVE A NEGLIGIBLE EFFECT ON THE UNEMPLOYMENT RATE COMPARED TO WHAT WOULD HAVE HAPPENED IF NOTHING AT ALL WERE DONE. THE UNEMPLOYMENT RATE IS EXPECTED TO PEAK OUT DURING 1975 AND FALL DURING 1976.

ON BALANCE, THEREFORE, THE COSTS DO NOT SEEM VERY GREAT. THIS IS ESPECIALLY TRUE CONSIDERING THE REDUCTION IN VULNERABILITY TO FOREIGN POLITICAL AND ECONOMIC INFLUENCES WHICH WILL BE THE RESULT OF THE PRESIDENT'S PROGRAM. EVEN IN THE CASE OF AN EMBARGO, ADOPTION OF THE PRESIDENT'S PROGRAM WOULD RESULT IN MINIMAL DAMAGE TO THE ECONOMY. ADD TO THIS LARGE BENEFIT THE POSITIVE BALANCE OF PAYMENTS EFFECTS AND THE ADDITIONAL FLEXIBILITY FOR OUR FOREIGN POLICY AND YOU HAVE COMPELLING REASONS FOR ADOPTING THE PROGRAM.



I'D LIKE TO CLOSE MY DISCUSSION OF THE ECONOMIC IMPACTS BY DISCUSSING ANOTHER VERY IMPORTANT COST - THE COST OF DELAYING ACTION. THE PRESIDENT'S PROGRAM WILL SET IN MOTION POWERFUL FORCES TO REDUCE ENERGY CONSUMPTION AND TO SUBSTITUTE DOMESTIC FOR FOREIGN SUPPLIES. THIS, HOWEVER, CANNOT TAKE PLACE OVERNIGHT. RAISING PRICES NOW HAS POWERFUL EFFECTS ON THE FUTURE AS PEOPLE CHANGE THE KINDS OF CARS THEY BUY, CHANGE THE DEGREE OF INSULATION IN THEIR HOMES, CHANGE HEATING AND LIGHTING HABITS, ETC. THE LONGER WE DELAY ACTION, THE LONGER IT WILL TAKE FOR THESE FORCES TO WORK. THE LONGER IT TAKES FOR THE FORCES TO WORK THE MORE VULNERABLE OUR ECONOMY AND OUR FOREIGN POLICY BECOMES.

CONCLUSION

THE PROGRAM THE PRESIDENT PUT FORWARD IS A COMPREHENSIVE ONE. IT WILL REACH THE GOALS THE PRESIDENT SET FORTH AND WHICH I THINK THE AMERICAN PEOPLE WANT. I HAVE HEARD MUCH



TALK AND CRITICISM IN RECENT WEEKS ON ELEMENTS OF IT, BUT I STILL HAVE SEEN NO CONSTRUCTIVE ALTERNATIVE. WE ALL WANT AN EASIER WAY TO REACH OUR GOALS. THIS PROGRAM DOES REQUIRE SACRIFICE BY ALL, BUT IT IS ALSO EQUITABLE. FINALLY, ITS IMPACTS ARE FAR OUTWEIGHED BY THE IMPORTANT BENEFITS IT WILL ACHIEVE. I AGAIN PLEDGE THE FULL FORCE AND COOPERATION OF THE AGENCY I REPRESENT IN WORKING WITH MEMBERS OF THIS COMMITTEE AND WITH THE CONGRESS AS A WHOLE TO IMPLEMENT A COMPREHENSIVE AND TIMELY NATIONAL ENERGY PROGRAM.

THANK YOU.

