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THE HONORABLE FRANK G. ZARB, ADMINISTRATOR
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Good afternoon, and thank you for that kind introduction. It is always a pleasure to get to North Carolina, especially when the arrival of spring seems to have been speeded up a bit by the warmer-than-usual weather we have had in this part of the country during much of the winter.

I am encouraged to see such a broadly representative audience here today, with many of this region's business and civic leaders, as well as many of the students and faculty who are attending the energy seminar today at Davidson College.

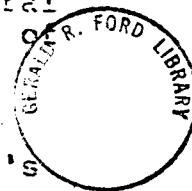
Above one of the entrances to the U.S. Department of Commerce Building in Washington -- which I can see from my office window -- appears a quotation from George Bancroft, who, in his History of the United States, said: "Commerce defies every wind, outrides every tempest, and invades every zone."

It has been more than fifty years since Calvin Coolidge said, with his characteristic brevity, that the business of America is business.

In the relatively short two hundred years of this Nation's existence, our domestic and international business and commerce has grown and provided benefits to all our citizens with a speed and efficiency unprecedented in the history of the world.

In the early years of the Republic, our trade grew largely through the hard work of individuals. But with the dawn of the Industrial Revolution, energy from our vast supplies of natural resources began to replace human labor in turning the wheels of industry.

Water power, coal, oil, natural gas -- each added its contribution to the growing need for fuel to meet the Nation's burgeoning appetite for goods and services.



Today, nuclear energy is providing a growing share of our need for electric power.

And, in the future, increasing proportions of our energy needs will be supplied by the development of efficient solar energy systems, refinement of the time-honored process of harnessing the wind to help do man's work for him, tapping the tremendous energy generated by the ebb and flow of tides, development of fusion power, and more.

There is an important common thread which ties together virtually all of the energy development we have seen thus far in our Nation. Energy from all the sources tapped thus far has been found, developed, produced, and brought to market, not by the Federal government, but through the operation of the capitalist economic system.

I know that today, the term "capitalist" has become somewhat tarnished, and the use of that adjective to describe businessmen has taken on a distinct tone of disapproval.

Yet capitalism and the principles of economics which have supported that system have brought more prosperity and a higher standard of living to the American people in a shorter time than any other method in history.

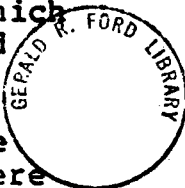
Just as the word "capitalism" has fallen into disuse because of its frequently misunderstood meaning, another term has been misused and distorted so often that many have come to think of it as having a meaning quite different from its actual sense. That term is "free enterprise."

My copy of Webster's New World Dictionary defines free enterprise as: "the economic doctrine or practice of permitting private industry to operate under freely competitive conditions with a minimum of government control."

In fact, while those of us in this country are preoccupied this year with the celebration of our national bicentennial, we might be tempted to overlook another bicentennial, which led to an economic revolution every bit as significant to the world as the American political revolution.

It was two hundred years ago this week that Adam Smith published his monumental "Wealth of Nations," a treatise which provided the groundwork for much of the economic theory and practice of the past two centuries.

Smith, the first modern economic philosopher, saw the basic compatibility of an economic system in which there were few artificial controls on the operations of businesses, and in which consumers benefitted from the increase in productivity which resulted from allowing economic principles to function freely.



Smith's most fundamental precept was that, in a democratic society, free and open competition among people and businesses generates far more goods and services -- the "wealth" of his title -- than arbitrary regulation of the smallest details of economic life by government.

"The invisible hand" of Adam Smith, under which individuals and corporate enterprises often promote the interests of society at large while pursuing their own interests, continues to be a valid economic theory in the opinions of many major economists today.

But it is just as important to realize what free enterprise is not as it is to know what it is.

It does not mean giving "carte blanche" to businessmen to do whatever they can get away with, adopting a "consumer-be-damned" attitude.

Nor does it mean the complete absence of controls and regulations where the government is the only logical "watchdog" to assure equitable treatment for consumers and businessmen alike.

Those who assume that the concept of free enterprise means unfettered profits for avaricious businessmen, with higher costs and no benefits for the consumers in the marketplace, are guilty of seeing only in black and white, ignoring the gray areas where most real life exists.

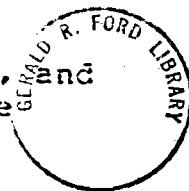
And I suspect that those who conclude that companies of whatever size can succeed for any length of time in pulling the wool over the eyes of consumers and other businesses simply have not tried their hand at any business venture.

No government mandated the economic laws of supply and demand, but whenever outside regulation has assumed its proper role of overseeing the operation of those laws, rather than intruding on their function, the factors of supply and demand have traditionally resulted in adequate supplies of commodities available for purchase by consumers at reasonable prices which reflect the real costs involved in producing and marketing those goods and services.

That principle is as true for energy fuels as it is for any other staple commodity.

If it is worthwhile for a producer to find, process, and deliver a product to customers, he will do so, whether the product is flour, beef, or oil.

Conversely, if production of a commodity is not a reasonably profitable investment, there will be little incentive for anyone to undertake the necessary production, and even less desire for competitors to get into the business.



In a free society, no legislative or administrative body can force production of any item if a potential producer can make more on his investment by devoting his efforts to some other, more profitable pursuit.

The question of how much or how little regulation should be imposed on business is -- of course -- not that simple. But, in a way, it is just as basic: virtually all investment decisions in a free capitalistic economy are based on the possibility of reasonable profit in a competitive market, not on governmental dictates.

American industrial strength and expansion depends largely on adequate supplies of energy -- the Arab oil embargo taught us that, in an abrupt and often painful fashion. Supplies of fuel which had been taken for granted for years were suddenly jeopardized, and for the first time in memory, there wasn't enough energy to go around.

Now we know that if we are to avoid the danger of similar incidents in the future -- and that danger is today even greater than it was at the time of the 1973 embargo -- we must rely more on our own resources, and less on those we import from other countries.

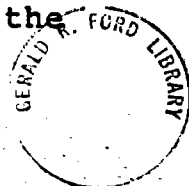
Producing adequate supplies of energy here at home necessitates as an absolute prerequisite an economic climate conducive to greatly accelerated private investment in energy production projects.

And the creation of that economic growth climate depends on profit -- that "bad" word which is so essential for energy development, and for the success of any competitive commercial enterprise.

We have -- fortunately -- come a long way toward meeting our goal of reversing the increase in energy imports and rebuilding our domestic energy self-reliance.

The passage of the Energy Policy and Conservation Act last December established legislative authority for gradually removing price controls on domestic crude oil production -- the last commodity still covered by the price controls instituted in 1971.

The Act also extended and expanded the Federal Energy Administration's authority to order conversions of industrial and electric generating boiler installations from oil and gas to coal, where such conversions are environmentally feasible. And it included important energy conservation provisions and authorized establishment of a strategic petroleum reserve upon which we could depend for emergency oil supplies in the event of another embargo.



The Energy Policy and Conservation Act was a beginning, and an important one, but it was only a start.

We still need a comprehensive national energy policy which treats all problem areas in our energy picture. And, as the President pointed out in his energy message to Congress two weeks ago today, there are a number of critical energy problems which still need solutions.

His proposals include the removal of current Federal controls on the wellhead price of newly-produced natural gas, which would be a major step toward encouraging increased domestic production of that fuel. Natural gas supplies half our industrial energy needs and nearly a third of our total national energy requirements. And each added increment of domestic natural gas supplies we can count on means that much less energy we will have to import.

The President also proposed the establishment of national standards for thermal efficiency in new buildings, to enable both better planning by builders, and greater conservation of energy in new construction projects.

Tax credits for energy conservation improvements in existing homes, and authority to assist lower-income families in taking steps to improve the efficiency of energy use in their homes, are also important elements of the President's program.

We need to streamline the increasingly complex licensing and site selection processes for all new energy facilities, especially nuclear generating installations, to minimize the lead times now associated with such projects.

The President has also proposed a program of Federal loan guarantees to encourage private sector financing of new energy projects. These guarantees would help bring the emerging technologies of synthetic fuels and other unconventional energy production projects to full -- and timely -- commercial viability. In fact, the provision of loan guarantees rather than outright financial assistance could wind up costing the government little or nothing, while providing an essential spur to private investment.

And we need a broad range of other programs, all aimed at creating the combination of energy production and conservation incentives which will bring us to the point where we are no longer excessively dependent on foreign oil by 1985.

It can be done and it will be done, but only if all of us -- businessmen, laborers, government officials, students, teachers, homeowners, everyone -- each do our part.



The goals we have established for reducing our energy vulnerability are achievable, and they are realistic. They are not easy, and they are not all popular, and they require a tough-minded recognition of the realities of economics and

More to the point, we must accomplish the objectives of recapturing our dependence on ourselves for energy. The alternative is grim indeed, and its consequences would mean damage rebounding throughout our economic system.

Unnecessary payments to overseas suppliers for energy mean that much less capital available at home for employment, investment, production, construction -- all business activity.

But that does not need to continue. We have both the resources and the resourcefulness to regain energy self-reliance and keep it this time, so that our third century of existence can be based on economic, political, and energy freedom.

There is another quotation inscribed on the Department of Commerce building which can serve to guide the actions of all of us as we seek to further the progress of the United States. The words are those of our first President, George Washington: "Let us raise a standard to which the wise and honest can repair."

I can't think of any better advice for government, for industry, or for individuals today or at any time.

Now, in the time remaining, I'll try to answer any questions you may have.

-FEA-

