

got to give up something to get it and that's the cost. We were nurtured on a view that growth in the United States and throughout the industrialized world was literally boundless, and that we could always look forward next year to more in the way of things than we had last year. We didn't have to think about the costs. We are now finding that that's sheer nonsense, and in a very real sense, "there ain't no free lunch." The things we want do have costs and there are limits on the capacity of an economy to satisfy our aspirations. Not only do we see real economic limits, but we see the limits clearly being manifested in terms of what we have done to the quality of our lives in terms of deteriorating environment and the like.

So I think that despite the fact that we are living through a period of very substantial travail, that something good ultimately will come of this; An appreciation for the fact that our aspirations are subject to the same kinds of constraints that economists have always suggested do exist; An appreciation for the fact that economics is relevant because it does deal with limitations and the economy has those limitations; An appreciation that even in our concern for rightfully addressing the matter of recession, we had better be concerning ourselves about inflation, too. Because if we don't concern ourselves about it, we are not going to be solving a problem, but papering over a problem. If we've learned this much, then it may well be that a very costly episode in our economic history can bring with it some very tangible and visible economic benefits for the longer run.



THE CONSUMER, THE SAVER, AND

THE FEDERAL RESERVE

Frederic Solomon  
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and

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Board of Governors of the Federal  
Reserve System

Let me first dip briefly into the history of the Federal Reserve System's relationship to the economic concerns of the ordinary citizen -- the individual consumer. Then I will describe the work of the new Office of Saver and Consumer Affairs at the Federal Reserve Board, which formalizes the System's interest in the consumer in the light of new duties given to the Board by recent consumer-oriented legislation. Finally, I would like to look briefly at what seems probable in the near future.

SOME BACKGROUND

Economic stability, banking soundness. -- It is a truism that the main functions of the Federal Reserve have related to (1) monetary policy, and (2) bank supervision. To most people, both of these have seemed far removed from the every-day life of the average saver or consumer. The fact is, however, that the Federal Reserve's activities, even its most basic and seemingly remote functions, always since the inception of the System in 1913, have been closely related to the economic interests of ordinary people. Bankers, whose lending and other services -- such as deposit receipts, check paying, interest paying and many other activities -- are affected by the Federal Reserve Act and Federal Reserve regulations, are well aware that the Federal Reserve is and always has been closely associated with the interests of the individual consumer.

This has been heightened in a broad way as many banks have entered bank holding companies, and have embarked upon nonbanking service activities bringing them into further contact with a wide range of consumer interests. On its part, the Federal Reserve has indicated its concern with the evident interests of consumers in this broadening of banking's activities by placing great emphasis on the public benefit test, stated in the

Bank Holding Company Act (12 U.S.C. 1843 /c/ /8/), of whether a proposed bank holding company expansion should or should not be permitted.

Thus, in a realistic sense, both monetary policy and bank supervision are intimately related to the affairs of savers and consumers. When the Federal Reserve helps maintain economic stability, it is helping to maintain the security of each individual's job, as well as the value of his or her paycheck and his or her savings. Similarly, when the System helps to maintain banking soundness, it is helping to maintain the safety of the depositor's savings as well as the continued availability of adequate consumer credit.

The fact that Federal Reserve monetary and supervisory activities serve the individual largely in an indirect fashion does not diminish the significance to the individual of Federal Reserve actions, and it makes Federal Reserve awareness of that significance all the more important. In deliberations on monetary and supervisory policies, the Federal Reserve must constantly be alert to the fact that the ultimate objective of its policies is to serve the best interests of the individual as jobholder, consumer and saver.

Securities Credit Regulation. -- In 1934 the System was given the responsibility for setting margin requirements on credit to purchase or carry securities. The principal purpose of this legislation was to restrain the potentially destabilizing use of credit in the securities markets.

It has been found that excessive use of credit to purchase securities tended to drive up securities prices to unrealistic heights; then when the speculative fever subsided, as it inevitably must, the process was, in effect, reversed -- the decline in securities prices snowballed and was made more severe as securities carried on thin margins declined in market values and had to be sold to meet margin calls.

While the securities credit regulations provided indirect protection for the saver and investor by helping to avoid destabilization of securities markets to which he had entrusted his funds, the regulations also provided a more direct protection for him. The legislative history of this statutory provision -- technically section 7 of the Securities Exchange Act of 1934 (15 U.S.C., sec. 78g) -- shows that Congress was also concerned with an important ancillary effect of the regulation. By limiting the extent to which an individual could be induced to buy securities on thin margin, the legislation reduced the chances of his being overcommitted and also of his being sold out if the market declines.

Note that this 1934 legislation assigned to the Federal Reserve the task of writing credit regulations and set the pattern of covering all creditors who extend the specified type of credit. Congress did not limit coverage to banks or even to securities brokers and dealers, but made it universal. The statute and regulations do, however, recognize the widely diverse practices, procedures and functions of different kinds of creditors. Accordingly, the requirements are carefully tailored so that they will fit the different situations as equitably as practicable while producing approximately equivalent results.

Hence, the Board's Regulation T (12 CFR 220) applies to brokers and dealers. Regulation U (12 CFR 221) applies to banks. And Regulation G (12 CFR 207) applies to all others who extend securities credit. Regulation X (12 CFR 224) forbids borrowings that would conflict with or undermine the lending rules in the other regulations. Each regulation has the same objective, but each attempts to reach that objective in the manner best suited to the particular circumstances in which it applies.

Truth in Lending. -- In 1968, Congress passed the Truth in Lending Act (15 U.S.C. sec. 1601). This legislation attempts to give the customer the facts about the cost and other pertinent aspects of credit he may be using. This is intended to permit him to shop for credit in somewhat the way he can shop by cost comparison for other things. In addition, if a credit creates any lien on his home, the Act gives him the protection of allowing him to cancel the transaction anytime within three business days.

The Truth in Lending legislation followed the pattern of the 1934 securities credit law by providing universal coverage and directing the Federal Reserve Board to write implementing regulations. The Act applies not only to all banks, but also to all others who extend consumer credit, including savings and loan associations, credit unions, finance companies and retailers.

The Federal Reserve Board issued a single regulation -- Regulation Z (12 CFR 226) -- to implement the Truth in Lending Act, but that regulation contains varied provisions designed to provide reasonable adjustments, so far as practicable, for the diverse situations to which it applies. Basically, this regulation aims at making sure the consumer gets in practice what the law promises -- clear, conspicuous and complete information as to the costs of the credit he is accepting.

#### Mechanism Outlined

The Truth in Lending Act also spelled out the mechanism by which regulations written by a single agency, but applying universally, would be enforced among widely divergent industries. It specified that the statute and regulations would be enforced as to each Federally supervised institution by its existing primary federal supervisor. For example, national banks by the Comptroller of the Currency, State member banks of the Federal Reserve System by the Federal Reserve, insured nonmember banks by the Federal Deposit Insurance Corporation, insured savings and loan associations by the Federal Home Loan Bank Board, etc. As to all other creditors -- for example, finance companies, retailers, etc. -- the Federal Trade Commission is the enforcing agency.

This rounded out the pattern of (1) universal coverage, (2) Federal Reserve writing of regulations, and (3) enforcement through existing agencies, that has since been followed by other legislation designed to help the consumer in the field of credit.

In 1970, Congress followed that pattern when it decided to correct abuses connected with credit cards. It added to the Truth in Lending Act -- and thereby fitted into that pattern -- prohibitions against unsolicited distributions of credit cards and limitations on liability for unauthorized use of credit cards (15 U.S.C. 1642).

#### Board Organization for Saver and Consumer Affairs

How has the response to these various responsibilities related to saver and consumer affairs been organized at the Federal Reserve Board?

With respect to the general responsibilities that relate to monetary and supervisory activities, consideration of saver and consumer aspects is woven into the general formulation and administration of policy. Among the great mass of economic information that it constantly studies, the Board gives especially close attention in its deliberations and its actions to information on employment and unemployment and to the movement of various prices, especially consumer prices -- in other words, to the individual's job and the prices he or she must pay.

With the passage of the Truth in Lending Act in 1968, the Board placed administration of both that Act and of the securities credit provisions of the Securities Exchange Act of 1934 in the Division of Supervision and Regulation, which had responsibility for administration of bank supervision, including the Bank Holding Company Act, and of which I was director. This assignment may not have been unrelated to the fact that I had previously worked on securities credit regulation when I was Assistant General Counsel in the Board's Legal Division.

As of August 5, 1974, the Board transferred administration of Truth in Lending and Securities Credit Regulation to a new division -- the Office of Saver and Consumer Affairs, of which I was made Director. Janet Hart, who had worked on these subjects as Assistant Director in the Division of Supervision and Regulation, became Deputy Director of the new division. A Member of the Board, Jeffrey M. Bucher, was given special responsibilities with respect to the new division, although all policy decisions will, of course, be made by the Board itself.

The new Office of Saver and Consumer Affairs will do more than merely continue administration of Truth in Lending and Securities Credit Regulation. It was created also in anticipation of certain pending consumer affairs legislation which I will discuss in a moment. In addition, it will have specific responsibility for helping to assure the Board that the interests of savers and consumers are given adequate and specific attention in considerations leading to all Board decisions. The carrying out of these responsibilities will be aided by the fact that I am also Assistant to the Board with continuing interest in supervisory matters.

Thus, the Board's historic relationship to consumer affairs has now been both tightened and formalized in the light of the increasingly specific consumer-saver responsibilities that the Congress has been placing upon the Board.

### Some Developments and Prospects

On October 28, 1974, the President signed into law H. R. 11221, which became Public Law 93-495. Besides several provisions not relevant to the present discussion, and several amendments to the Truth in Lending Act, the new law contains two new consumer protection acts that follow the Truth in Lending pattern.

Fair Credit Billing. -- One of these new acts is called the "Fair Credit Billing Act." It is in the form of a new chapter added to the Truth in Lending Act. It might be described as the legislative response to the frustration that has swept over countless consumers who have found themselves arguing hopelessly with an unresponsive computer about errors the computer had made in their bills. The legislation establishes procedures for the correction of billing errors in open-end credit accounts, and forbids a creditor to restrict or close out a customer's account or take action against the customer's credit rating in regard to any account as to which such procedures are in process.

Subject to certain conditions, the new legislation also permits the holder of a credit card to utilize against the issuer of the card any defenses arising out of a transaction in which the credit card is used. For example, if a card holder uses his credit card to buy merchandise that turns out to be defective, the card holder can, by meeting specified conditions, use any defense against the card issuer that he could use against the seller of the merchandise.

The new Act contains a one-year deferred effective date, and during that time, the Board will be preparing implementing regulations.

Equal Credit Opportunity Act. -- The second new consumer protection act contained in Public Law 93-495 is the "Equal Credit Opportunity Act." This forbids discrimination in credit on the basis of sex or marital status. It might be described as the legislative response to the frustration experienced by many creditworthy women who have been denied credit or credit standing for no other reason than their sex or marital status. It is also a Congressional recognition of the great opportunity that stands before creditors who will attempt to meet the legitimate credit needs of the millions of creditworthy women.

The Act is not limited to consumer credit, but applies to all credit, including business credit.

The legislation follows the Truth in Lending pattern and directs the Federal Reserve Board to issue implementing regulations. The Act provides a one-year deferred effective date, a span which our experience with Truth in Lending indicates to be fully needed for preparing the necessary regulations.

Unfair or Deceptive Acts or Practices. -- On January 4, 1975, the President signed into law Public Law 93-637, the Federal Trade Commission Improvement Act, which considerably further enlarged the responsibilities of the Federal Reserve in the area of saver and consumer affairs.

Besides a number of provisions not relevant to our present discussion, the legislation did several things:

1. For the first time banks were made specifically subject to the prohibition in the Federal Trade Commission Act against "unfair or deceptive acts or practices."
2. The Federal Reserve Board was directed to prescribe rules to carry out that prohibition as to banks.
3. Within sixty days after the effective date of any regulations issued by the Federal Trade Commission proscribing acts or practices as being unfair or deceptive, the Federal Reserve Board will have to issue similar regulations proscribing similar acts or practices by banks. The Board could omit issuance of such regulations only if it made a published finding that such acts or practices by banks would not be unfair or deceptive or that such regulations would seriously conflict with essential monetary and payments systems policies of the Board.
4. Existing Federal agencies supervising banks are utilized to enforce regulations issued by the Board. Each such agency is directed to establish a division of consumer affairs "which shall receive and take appropriate action upon complaints with respect "to" unfair or deceptive acts or practices by institutions subject to its jurisdiction. The Board, as I have noted, has already established the Office of Saver and Consumer Affairs.

You will note that this legislation follows the Truth in Lending pattern partly, but not completely. The main difference is that the writing of regulations is divided between the Federal Reserve Board (as to banks) and the Federal Trade Commission (as to all others).

Now, to look ahead a little. The phrase "unfair of deceptive acts or practices" is, to say the least, broad and flexible. Its meaning will necessarily vary with different circumstances. (For an extensive analysis of the phrase as it appears in the Federal Trade Commission Act, see the so-called "octane ratings case" (National Petroleum Refiners Association et al v. Federal Trade Commission et al, 482 F. 2d 672, 1973). Some clues as to some things the phrase might include may be gleaned from the report issued by the National Commission on Consumer Finance, the temporary study commission created by the legislation that included the Truth in Lending Act.

That report in Chapter 3 discussed -- and to some extent criticized -- a number of controversial acts or practices in the consumer credit field, including such things as confessions of judgment, deficiency judgments, cross collateralization, coercive reaffirmations following bankruptcy and many others. Any such listing, even as extensive as that in the report, obviously can be only a sample of the many and diverse acts or practices that may have the potential of being held to be subject to the phrase.



I should add that this brief listing of legislation that has been enacted should by no means be taken as a complete catalog of consumer protection measures that have been proposed in one form or another. There are many others at various stages of consideration in the Congress, and still more will probably come forward.

This should not be surprising. Experts point out that our economy has long since left the agricultural stage, and almost thirty years ago moved from the industrial to the service stage. About 70 per cent of the nation's total labor force is now engaged in providing services. That leaves only 25 per cent engaged in manufacturing and 4 per cent in agriculture. Even putting to one side the 21 per cent who are employed in providing government services at the Federal, State, or local level, you will see that about 50 per cent of the total labor force works in other service industries.

In this setting, it is only natural that the consumer should be king. And with extra capital desperately needed throughout the economy, all of us would probably be better off if the saver could also be accorded an increased degree of royal status. Many of the measures to protect savers and consumers are, after all, merely restatements of sound and equitable business practices -- opportunities to serve customers that have not previously been adequately served. That is the path of future progress for our service economy.



## TRANSPORTATION POLICIES

### NEW STRENGTHS FOR THE EXISTING STRUCTURE

Benjamin O. Davis, Jr.

Assistant Secretary of Transportation,  
Environment, Safety and Consumer Affairs

Just a few short years ago, it was possible to note with interest the news that Detroit was turning out 10 million automobiles a year. American productivity, after all, was the wonder of the world. We could read, without wincing, that the United States, making up six per cent of the global population, consumes 30 per cent of its energy resources. Even if we were the most profligate people on earth, it seemed, there was plenty more energy where that came from. The dollar was sound and the job market good. The road to suburbia was jampacked with cars while the airlines sent up half-empty planes. The nation's transportation system, spending about \$200 billion a year, a fifth of the Gross National Product, was the moveable feast of American prosperity.

We are well aware today that the party's over. The only words that we hear about the recession, inflation and energy shortage are serious and sobering. From all indications, the economic picture will worsen before there is a measurable recovery.

A learned man once said, "we must think of our whole economics in terms of a preventive pathology instead of a curative pathology." In large part, the preventive phase for the United States has gone by and we are left with the cure as the only recourse. But adversity is the harsh teacher. We can take the past mistakes and wisely influence the future. I believe that is our direction at the Department of Transportation.

The three problems of inflation, recession, and energy powerfully affect the Department's mission. We are charged with the safe and efficient movement of people and goods in this country. And the hard times of today serve to reinforce our belief that the transportation policy for the future must incorporate change.

Less than a decade ago, in 1966, the DOT was established by the Congress. We have authority over the activities of 105 million automobiles, 23 million

trucks and 4 million motorcycles, as well as 50 thousand city buses and 25 thousand intercity buses. We are involved with the operations of 1.7 million freight cars and 27,000 locomotives, 140 thousand airplanes including a commercial fleet of 2,500 large air carriers and, in addition, all of the thousands of vessels moving on our rivers and waterways.

Now, I am not trying to dazzle you with figures or impress you with our responsibilities. The amount of machinery in motion in this country tells only part of the story. I do want to illustrate why, in the course of almost 10 years, the Department has not developed a set formula for controlling this whirlpool of technology.

It is not only that the transportation network is big. It is a question of complicated goals and policies. We establish national goals of primary importance. We attempt to agree on policies to advance these goals. We then develop and implement programs to carry out the policies.

The trouble is, policies have been established at different times in response to different problems. The energy shortage, for instance, brings on new goals and other elements must be adjusted to them. This leads to a wide variance between the priorities of one time and another, just as the recession becomes more menacing than inflation. We have to constantly shift with the times and at the same time, try to plan for the future. Transportation is of itself an intermediate function, not an end but a means. It is a link between other economic and social activities. It is, therefore, continuously affected by the changes of economic and political forces. In planning for any transportation program, we now have to think of the inflationary impact and the effects on recession, just as we must write out an environmental impact.

Another complication in forming national policy is the mixed public-private nature of our financial system and the division of governments. In a nation that incorporates Federal, State and Local authorities, in such number, it is most difficult to single out one group as being totally, even mainly responsible. We are not capable of bringing all of these people who make transportation decisions under one umbrella and having them write out a single "grand design."

Last year, with all of the inter-related problems, I believe that the Department of Transportation made a beginning toward a set policy. It is something that we can build on. As presented to the Congress, it is an outline of the course that the Federal Government hopes to steer through the end of this century.

Among other things, we proposed to avoid a continuous Federal financial role and instead encourage competition in a free enterprise economy. We asked for a new cooperation among the modes of transportation -- buses, trains, planes -- with the joint use of terminals. We would end the old separation of transportation facilities. DOT called for an improved system of providing transportation for rural America, to help those communities served only by the motor vehicle.

We advocated that when Federal expenditures become necessary, that money should be recovered in fees, from those who benefit. It is controversial, I know, but we think that the users to inland waterways, for example, should pay for taking advantage of a government-developed complex.

Most importantly of all, we advanced to the Congress that in all areas of transportation, the main problem in the next decade is not the capacity to handle passengers and freight movement. It is better management of existing resources, a halt to the pell mell construction of the past 30 years. In so many cases, there is no need for expansion and existing systems will do -- if they are improved. This concept bears heavily on the present struggle with inflation as well as unemployment. Jobs can be created just as readily in maintenance and improvement. This is no time to be building more and spending more.

Sufficiency is the word that comes closest to describing our situation. If we improve and use transportation facilities that we already have, we strike against inflationary expenditures. If we charge the user, we staunch the overflow of Federal money. Rather than a massive dose of new and expensive technology, we mainly require the measured application of common sense.

We have taken this principle into the planning for every transportation mode. As a nation heavily dependent on the motor vehicle, Americans are conditioned to think in terms of unlimited highways. And since the end of World War II, the U.S. highway system has increased by 12 per cent to its present 3.7 million miles. The heart of this total is the 42,500 mile Interstate system, which is now nearing completion. The entire national complex of highways carries 7 per cent of intercity passenger traffic and 23 per cent of total ton miles of freight.

With very few exceptions, the physical capacity of the total highway network is far beyond its actual usage. There is congestion at peak hours on about 25 thousand miles of rural arteries. But the major jams occur only at certain times of the year and mainly in the urban areas. The conclusion, then, is obvious.

We believe that better traffic management and improvements to public transportation -- actions such as carpooling and exclusive bus lanes -- are more of a solution than simply pouring concrete and building more highways. The Federal Government will have to assist the States in the continuous upgrading and maintenance of the heavily traveled roads but this is part of the price for making do with what we have. When President Ford released the \$2 billion in impounded highway funds in February, the Department of Transportation was quick to announce that the money would be used mainly to update and renew existing road systems and not for new construction. There is also a good chance that some of the funds will be channeled into mass transit and railroads. As for highway work, the 2 billion will not be at cross-purposes with the nation's energy conservation goals. Instead, the money will serve to make the national road system more efficient and safer.

Overall, the Department of Transportation is totally committed to reducing automobile use, especially in the cities. Now, arguing the good and bad features of the automobile has become a national pasttime. Most of us in this room own a car and it would take an act of celestial displeasure to ever pry us out of it. But we cannot gainsay its bad side. 100 million automobiles contribute heavily to air pollution in our cities, 39 per cent of it. The auto consumes 30 per cent of all liquid petroleum in this country and we have had a taste of how an Arab oil embargo can jar our dependence.

Because there are so many automobiles, a good deal of our Departmental time and effort is devoted to their safety and environmental improvements and to greater fuel efficiency. But we want very badly to get people out of the passenger car and onto public transportation. And the problems there are terrific. Our cities grew up over the past half century in a haphazard fashion, with the rush to the suburbs and little thought or planning for future transportation needs. The result is today's "sprawl" -- large out-lying areas that are served efficiently only by the automobile.

Money has not been the whole answer. Since 1970, the Urban Mass Transit Administration's grant program has given over \$3 billion to over 150 cities to either buy buses or to build and improve rail systems. Legislation for mass transit passed the last session of Congress, with Administration backing, which will provide \$11.8 billion over a six-year period. The new flow of money will be put to the best possible use, of course, but it does not negate the necessity for better using our existing resources.

We have to encourage the urban areas to operate their transit and highway systems more effectively. All of us tend to fall into patterns, and sometimes they are the wrong patterns. In many municipal regions of the country, lack of comprehensive management is a real drawback. Much of the urban mass transit activity is geared only to the peak-hour capacity. During most of the day, the streets and the transit vehicles are underutilized; less than 25 per cent of the available transit seat miles are actually in use. In so many cases, new equipment is just not needed. And in the big cities, as the result of high density and accompanying congestion, the cost of constructing and operating transit facilities is very high. If there is a long-term solution, it lies with the urban planner.

We will provide the Federal funds that are both dependable over time and flexible in use. But it is the non-Federal Government mechanisms that have the authority to make and implement all relevant urban plans, appropriate to the size and structure of their areas. With intelligent direction, existing systems can better serve the public while cutting expenses. This means the development of quality bus lines, expanded jitney and taxi service, and sensible incentives to carpooling. Urban authorities have to institute changes in the present traffic patterns by stretching out and reducing rush-hour peaks. The smart city planners today know their area and its capacity. It is their initiatives which will untangle traffic and move people.

The sick man of the whole transportation industry, of course, is the railroad system. In recent years, the Federal Government and the Congress have been deeply involved in trying to save the railroads and in this area,

our efforts are largely curative. Too much damage had been done before the government stepped in.

The rails have been drifting and going downhill for a quarter of a century but their troubles go back much farther than that. Our basic regulatory policy has changed very little since 1887, when the Interstate Commerce Commission was formed. Railroads had a monopoly back then, for passengers and freight. But in that long time span between the 19th century and today, the competitive position of the rails has given way to other modes -- pipelines, trucks, barges and air. When you garnish that situation with corporate mismanagement in many cases, the result is today's railroad mess.

American rail companies earn net profits as a per cent of equity for the industry lower than one per cent. Many of the companies cannot generate sufficient earnings to make needed improvements in tracks, roadbeds and facilities. The industry's share of total intercity freight ton miles and the average revenue per ton mile are almost at the bottom. The railroads are also burdened by many miles of uneconomic lines, a financial drain that adds substantially to operating costs.

The pressing need is money and Congress has been reluctantly providing it. Two years ago, the shaky Northeast Railroad System, which serves the densely populated area between Washington and Boston, received invaluable assistance. The House and Senate recently passed amendments to the Regional Rail Reorganization Act allocating \$375 million to the suffering rail lines. But with this legislation, the Department of Transportation has also demanded reform in the antiquated regulatory process.

We have to strike out the outmoded restrictions that impede the whole surface transportation complex. We must permit the lines far more pricing flexibility so they can compete more effectively for traffic, especially where they have a cost advantage. It is necessary to reduce the excess capacity in main line track and to eliminate light density lines. In so doing, the railroad firms can then lower per unit operating costs and help to restore their own finances without the need for a continuous government handout. Passenger service has to be revitalized for the whole country. And with that kind of railroad improvement, and regulatory reform, we can hold off any future wreckage like that of the Penn Central. Again, the idea is to improve and upgrade the resources we have right now to build a healthy and viable American rail system.

Over a year ago, beginning with the Arab oil embargo, some of the airlines began sending up distress signals. The boom years brought on by jet aircraft had obviously closed out and U.S. flag international carriers were in a serious financial plight. Pan American, the pioneer in overseas flight, said it could not operate without subsidies running into the many millions and Trans World also proclaimed itself in trouble.

One immediate cause of the carriers' financial difficulty, of course, was the steep and rapid rise in fuel prices since the oil embargo. Another

was the drop in passenger traffic. More serious and deep-seated were the problems of the overall international regulatory regime, the competitive structure, and the practices of some foreign airlines and their governments.

Today, the situation is a little less dire. Pan Am first asked for a Federal bail-out, which was not forthcoming, and then a possible merger with Trans World. Finally, after months of negotiation, the Ford Administration approved a \$300 million Iranian investment in Pan American and the infusion of petrodollars is certain to alleviate the immediate financial problem.

Domestically, the air carriers are in pretty good shape. The increased use of wide-bodied jets, planned improvement in air traffic control systems, and certain scheduling and operational changes should meet the projected increase in capacity requirements for at least the next decade. Certain airports do experience much higher levels of use in relation to their capacity, the three New York Airports for example. But we anticipate few, if any, major additions to the nation's airport capacity -- that is, new airports -- during the 1980's. There is always local resistance to them and also traffic has to reach very high levels before the carriers find it profitable to serve more than one airport in a large metropolitan area. Our major efforts, physically, will be on increasing the capacity of existing facilities, including ground passenger handling, and more careful assessment of the roles of multiple airports in the metropolitan regions. Legally, the government emphasis will be on regulatory reform.

Here again, as with the railroads, civil aviation suffers from a regulation system that is inefficient and costly. Over the coming months, the Ford Administration will be submitting legislation to "deregulate" the airlines. We seek to remove the Federal Government control over determining the price of airline tickets, in designating which companies may enter the airline business and what routes they may fly. We claim that the Civil Aeronautics Board, which was patterned largely on the old ICC, was created to promote and protect a fledgling industry. But the airline industry is now mature and it requires much greater flexibility as an economic force.

Sufficiency is also the word to apply to our 25,000 miles of navigable rivers, canals and coastal waterways. It appears that most, if not all, of the high priority opportunities for developing rivers and coastal areas have already been exploited. The capacity of the present system, except for a few bottlenecks, is many times its present level of usage. Even traffic on the St. Lawrence Seaway has been leveling off in recent years, although it's still at a record high.

Whatever the mode of travel, the public need figures very strongly in all of our planning. I can assure you that our Department is listening to the transportation consumer. The Office of Consumer Affairs, one of seven offices under my jurisdiction, is there to transmit the concerns of the traveling public to the decision-making process and to suggest remedial actions. The Office Director is Ann Uccello, a former Mayor of Hartford, Connecticut, and one who knows civic problems and people first-hand.



She and her staff have conducted 54 consumer public hearings in 21 States over the past few years. Through individual testimony and responses to a 29-item questionnaire, the Consumer Affairs Office has, in effect, taken the consensus of thousands of users of the transportation system.

People do want a reduced emphasis on automobile travel and highway construction. They are calling for a better balanced system, with convenient and efficient mass transportation, intermodal transport centers, and improved routes and scheduling in bus services.

There is public pressure to break the Highway Trust Fund and create a general transportation fund. Consumers demand greater citizen participation at every stage of transportation planning. They are most unhappy with the present practices in auto repair and guarantees and they want reforms in auto insurance.

Among the most vocal participants in our program have been the handicapped and the elderly, many of them representing local or national groups. They completely reject "separate but equal" facilities and they are insistent on a public transportation system that is barrier free. We have heard any number of suggestions for dial-a-ride and jitneys and buses to service the elderly, and for low cost or free transportation for the poor and minorities in both the innercity and rural areas.

These changes and innovations in our transportation complexes are badly needed. They are an important part of the system of Departmental goals and policies. And they fit very well into our policy of sufficiency.

We know now that we have exploited most of the resources available in this country. More than just cornerstones, we have built the whole structure. This is the time for better maintenance of our transportation house and for home-improvement. We are up to capacity in many areas of travel and transport. But we have the foundation now for a national policy that recognizes that the energy sources and land use of the United States are finite.

The main problem is not the ability and means to handle large freight and passenger movement. In the next decade and, indeed, through the rest of this century, the real mission of the Department of Transportation is better management, doing it well. In this deepening time of national austerity, the legendary resourcefulness of this country will be severely tested. I am confident we will prevail.



## FOOD AND FIBERS

(WITH AND WITHOUT SYNTHETICS FROM PETROLEUM)

Bill C. Price  
Staff Director  
Chemical Group  
Phillips Petroleum Company  
Bartlesville, Oklahoma

Two of man's most basic human needs are food and clothing. We can't meet these needs without the help of petrochemicals. Petrochemicals are produced from oil and natural gas. With the critical situation we face of depleting these two finite natural resources, oil and gas, it seems particularly timely to recognize the important role petrochemicals play in meeting societies desires and necessities.

Just to re-establish -- petrochemicals include an array of plastics, rubber, agricultural chemicals, pharmaceuticals, fibers, solvents and a host of other consumer products such as detergents and antifreeze. The availability of petrochemicals is closely related to our energy situation since about 94% of our available oil and natural gas, the raw materials for petrochemicals, is used to generate energy.

As we visit, I'm going to share some information with you that will include a few statistics. I hope you will jot some of these numbers down. I am convinced they are important to us and I hope you will find they are worth sharing with others.

Consider, with me, the impact of petrochemical synthetics on our Food and Fibers supply.

What do you think would happen in the areas of food and fibers if we did away with petrochemical based synthetics? Make some guesses if you will -- for your use -- jot down what you think would happen -- if we did away with petrochemicals.

How many meals would you have to give up each week? What costs are involved?

What is the cost of petrochemical fertilizer per bushel of corn produced?

How about fibers? How would your lifestyle be affected if petrochemical based fibers were eliminated? How many dresses of every ten women's dresses would be given up? How many suits of every ten men's suits would be given up? What are the costs of petrochemicals going into a \$125 men's suit.

With regard to food -- if we eliminate synthetic fertilizer, manufactured from petroleum -- are you ready to give up 6.3 meals per week, 322 meals per year? (That's for every man, woman and child in this country.)

Aqueous Ammonia, Ammonia Nitrate, and Urea are synthetic fertilizers -- petrochemicals. A conservative computation shows that productivity from our tillable soil would be reduced 30 percent, if commercial fertilizers were no longer available. All crop production would decline 30 percent and with the exception of fish that would include principle meats since beef, pork and poultry are converted plant life.

Synthetic fertilizer is surely one of the farmer's greatest productivity aids in supplying food for our society, allowing us 30 percent more production from our tillable soil.

What does this productivity aid cost us? Is it a bargain? Since so much of our fertilizer is petrochemical how are increasing oil and natural gas prices affecting us?

Let's use a familiar vegetable, corn, as a base of reference. The cost of nitrogen from ammonia costs about 12¢ per bushel of corn produced. Corn is valued at about \$3.50 per bushel. So nitrogen for fertilizer costs about 3% of the selling price and for that, we get 30% more corn.

Incidentally -- in the past 30 months the cost of nitrogen from Aqueous Ammonia has increased from 8¢/bushel to 12¢/bushel or 50% while corn has increased from \$12.5 to \$3.50 per bushel or 180%.

For 10¢ per bushel we get 30 percent more corn and petrochemical fertilizers assist all consumers in getting maximum use of our individual resources.

How about petroleum based synthetic fibers? Recall with me that nylon, acrylics and polyesters are all converted petroleum products -- Petrochemical synthetics from oil and gas.

How did you guess on giving up petrochemical based fibers?

Were you women ready to give up -

8 out of 10 dresses;

Additionally are you willing to give up -

7 of every 10 sweaters;  
All hosiery;  
Essentially all undergarments;  
And while we're on wardrobes and from the non-fiberous  
plastics - were you ready to give up nearly all of your  
shoes and boots?

Were you men prepared to give up -

5 out of 10 suits - plus  
 $\frac{1}{2}$  of your shirts, slacks and coats  
And from  $\frac{1}{3}$  to  $\frac{1}{2}$  of your shoes?

In the area of home furnishings would we like to do away with -

$9\frac{1}{2}$  out of every 10 yards of carpet;  
8 out of every 10 blankets;  
7 out of 10 curtains;  
60 percent of our drapes and  
80 percent of the upholstery we use?

Synthetic Fibers aid consumers in many ways as far as helping maximize the use of our resources. They are durable, soil resistant, wrinkle resistant, and can be washed and worn. Additionally petrochemicals provide not only high quality fiber products but also provide very economical raw materials. Just what kind of a bargain are synthetic fibers? And since they also are petrochemicals -- how are increasing oil and natural gas prices affecting use in this area?

Using a man's polyester suit as a basis for discussion -  
We require about  $2\frac{1}{2}$  pounds of DMT and 1 pound of ethylene glycol to produce  $3\frac{1}{2}$  pounds of polyester for a suit. The  $3\frac{1}{2}$  pounds of petrochemicals have increased from \$1.16 to \$1.95 in the past 30 months and go into a man's suit that cost about \$100 to \$150.

Synthetic petrochemicals again assist the consumer in maximizing use of his resources. And increasing oil and natural gas prices have a minimal effect on the cost of the finished product.

Even if we wanted to, we can't go back to natural fibers for our total needs. Wool is too expensive and we can't raise that many sheep. Where cotton is concerned - we can't raise enough to replace synthetics.

Wait a minute, some will say, let's just cultivate more land -- use more acreage! With regard to food let's forget fertilizer and put more land in food production. And in the case of fibers, let's just raise more cotton.

In the U.S. today we have about 353 million acres in crop production. Ten million of that is in cotton, leaving 343 million acres in food production. The Department of Agriculture tells us that, if everything goes well, we may be able to add 33 million more acres of tillable soil by 1980. If we had to replace the productive effect of synthetic fertilizer used in food production with added acreage we would have to add 103 million acres.

To replace our synthetic fibers with cotton -- and without fertilizer -- would require 51 million additional acres of land.

If we combine the additional acreage required for food production without commercial fertilizers and to replace synthetic fibers with cotton, we would need 154 million additional acres of cropland.

All of those acres get a little mind boggling for me and I really don't think well in acres. So let's consider, in a different way, the added land area we would require to produce food and fabrics if we didn't have synthetic fertilizer and synthetic fibers.

Starting from the east coast and using a variety of sizes of states, replacement would require land area equal to about that of Massachusetts, Rhode Island, New York, Pennsylvania, New Jersey, Delaware, Maryland, West Virginia, Ohio and Kentucky. That's additional to what we already have -- we can't do it.

These synthetics, petrochemicals, derived from oil and natural gas are related to our current energy situation.

Over 90 percent of our available oil and gas goes into energy generation. Oil and natural gas currently supply about 76 percent of our total national energy fuel requirements. The Department of Interior expects oil and gas to supply over 50% of our energy requirement through the year 2000. We are depleting a finite resource and we're not doing nearly enough about providing incentives to search for more oil and gas nor are we doing enough toward developing alternative sources of energy so that we may be assured of having adequate supply for a portion of our energy needs and adequate feedstocks for synthetics in future years.

We are using oil at a geometrically increasing rate. Consider our total oil and natural gas use to date. From the discovery of oil in 1859 all the way up through World War I, World War II, and the booming years of the 50's up to 1960, we used 115 billion barrels of oil in this country. In the 10 year period of the 60's we used 110 billion barrels of oil -- nearly as much as in all previous history. We would have used 272 billion barrels of oil in the decade of the 1970's -- more than all previous history again -- but it probably won't be available.

Significant new energy sources, ones that don't rely on oil and gas, aren't likely before 1985 to 1990.

Both the petroleum industry and the petrochemical industry are faced with trying to meet the needs of we consumers, while being continually discouraged and confronted with more and more legislative limitations and governmental controls.

It is imperative that we encourage private enterprise to search for the petrochemical feedstocks oil and natural gas, rather than discouraging the search through more governmental limitation, because synthetics from petrochemicals are extremely important in meeting a wide array of our product needs and desires today.

Petrochemicals are important in everything from aspirin production to automobile antifreeze, from milk cartons to aerospace shields, we're in constant contact with petrochemicals from the time we crawl from between those polyester sheets in the morning until we flip off that plastic light switch at night. Petrochemicals are important in almost every phase of the lifestyle we've come to want and enjoy in this country.

More than just being important in providing our wishes and desires, petrochemicals are essential to meeting man's basic needs for food and clothing.





## ELECTRICITY AND THE CONSUMER --

### IS THE ROMANCE ON THE ROCKS?

Robert K. Zimmerman  
Chairman of the Board and President  
Kansas City Power and Light

#### INTRODUCTION

I want to thank you for inviting my industry to participate in your annual meeting. Your council has a reputation for an objective concern about consumer interests. The awesome impact of inflation and the energy situation on every product and service has emphasized your role in their behalf. In the time allotted me, I'm going to share with you some information about the problems of the electric industry as they relate to consumers, together with some of the conclusions I have reached. As your program indicates, I'd like to begin by talking about a romance.

#### THE 80-YEAR-OLD ROMANCE

Since they began inauspiciously a century ago, electric utilities have had a growing romance with consumers. In those early days, the important use of electricity was to power street cars. Extra electricity available at sunset was sold for lighting. In many cities, there were 9 o'clock, 10 o'clock, midnight and all-night circuits from which to choose. Payment often was in advance, eliminating collection problems. In Kansas City during the 1890's, a kilowatt hour cost about 20 cents.

Then there came the development of electric appliances, starting with the flat iron, and electricity was off on its mad adventure with the American consumer. The goal was the ultimate development of the good life, which at least in part has been achieved. Today, more than 250 time and labor-saving appliances are available, which have freed the household from a never-ending list of chores.

At the same time, a bond just as strong was developing between electricity and commerce and industry. Electricity became the growth vitamin for the continuing industrial revolution, establishing jobs, increasing productivity, and -- through improved efficiency -- making both the necessities of life and many of the luxuries available to almost everyone.

The romance was also good for the electric utility industry. Expanding usage resulted in an incredible growth rate, which doubled our customers' kilowatt hour requirements every 10 years. This made possible the development of efficiencies in production, transmission and distribution of power to people. The fixed charges of taxes, depreciation and interest on borrowed capital could be spread over more kilowatt hours. The 20 cents, which the average residential consumer paid for a kilowatt hour at the turn of the century, had dropped to 2.5 cents by 1970. The industry was able to accomplish this while absorbing the growing impact of inflation following the wars, which more than doubled the price of many other products and services.

At the same time, a steady, modest growth in earnings made utilities attractive to investors in bonds and stocks, which have provided about 60 per cent of the capital investment for utility expansion. Capital requirements have been substantial. The off-shoot of the traction firms has grown to become the nation's most capital intensive industry, accounting for some 13 ½ per cent of total capital investment. Between \$4 and \$5 of investment are required for every \$1 of revenue received. This is about five to 10 times the ratio of most basic industries.

#### THE MELLOWING ROMANCE HAS LOST ITS BLOOM

The romance between electricity and consumers appeared to be on solid ground. Usage had climbed in 1970 to the point where it was about six times 1945 levels with an average kilowatt hour cost of 30 per cent less. While bills were higher, unit cost had decreased.

In the last five years, the picture has changed dramatically. Fuel costs have soared. The financial community is disenchanted. Regulatory commissions are being harrassed. Consumption was flat in 1974 for the first time since the 30's. Power bills are higher than ever. Consumers are reeling and revolting. In short, things are in what can only be described as "a mess."

#### INFLATION IS MAIN PROBLEM

What happened to undermine one of the nation's strongest and most vital industries? The answer is complicated, but generally involves the combined impact of inflation, the fuel situation, the cost of meeting environmental rules, and regulatory lag.

No longer a term of vague economic jargon, "inflation" has come to have a personal meaning for every American consumer. The rate of inflation continues well into the double-digit range, and has emerged as our nation's most serious problem. It has had a "double-barreled" effect on the capital intensive power industry, causing both significant increases in construction and operating costs and record-high costs of borrowed money.

Let me turn to my own company for an example. The common industry yardstick for measuring the cost of building power plants is the cost per kilowatt installed. We completed a plant in 1969 at an installed cost of \$111/kilowatt. The comparable cost of a plant which went on line four years later in 1973 was about twice the 1969 figure. On the same basis, projected costs of future plants indicate ratios of three times by 1977, four times by 1980, and the installed cost of a plant proposed for 1982 will be eight times the 1969 figure.

#### ACCELERATING FUEL COSTS

Problems of fuel cost and availability are equally pressing. Electric utilities consumed large quantities of fuel necessary to create the heat energy to boil the water. . . to make the steam. . . which turns the turbines and generators of the large, base load power plants from which most Americans receive their electricity. Some three-fourths of the industry's production capability is fired by fossil fuels, that is either oil, natural gas or coal. For many years, these fuels were available under extended contracts at modestly increasing prices. However, inflation, the Arab oil embargo and resulting energy crisis have changed all that.

In the last three years, the price of fuel oil has quadrupled, natural gas -- if available -- had doubled, and the delivered cost of coal purchased under long-term contracts has risen about 50 per cent. Furthermore, the price of spot-purchased coal has increased in some cases to a level near that of fuel oil.

Some utilities have always used oil for basic fuel. Others, particularly those along the eastern seaboard, converted coal-fired boilers to oil and added more oil-burning capacity when environmental restrictions prevented the burning of coals available in that region. In some cases where consumers are served mainly from oil-fired power systems, skyrocketing fuel costs have doubled electric service bills.

Regulatory agencies of 32 states have authorized increased fuel costs to be passed on directly to all customers, according to the number of kilowatt hours consumed. While the fuel adjustments enable consumers to pay their fair share of fuel price increases, the sizeable fair share involved is causing stormy discontent. However, without fuel adjustment clauses many utilities in all likelihood would be bankrupt.

#### THE HIGH COST OF CLEAN AIR

The consumer is also learning that the nation's environmental goals are having an impact on the price of products and services. The potential cost of meeting environmental rules and regulations by the electric industry is only now being revealed. The real issue today is not whether we will have clean air and water -- those decisions have already been made -- but the issue is rather how and at what costs, social and economic, we will accomplish it.

The electric industry believes that consumers have a real stake in amendments to the Clean Air Act of 1970, soon to be considered by Congress. Impending decisions will directly affect the price people pay for electricity, as well as the amount of electricity available to meet future needs.

One issue involves the establishment of national emission limitations for sulfur dioxide, an invisible, gaseous pollutant released when coal, and some kinds of oil are burned. Sulfur dioxide is a problem only in portions of some Metropolitan areas. To establish limitations for application nationwide, including areas which meet the ambient air standards set by the Environmental Protection Agency to protect human health and welfare, would require the needless expense of billions of dollars.

The EPA estimates that the use of scrubbers, that is, devices which remove particulates and sulfur by washing boiler flue gases, on coal burning electric generating plants will increase the cost of electricity to the consumer by 17 per cent. Senator James A. McClure, a member of the Senate Subcommittee on Environmental Pollution, predicts a 20 to 30 per cent increase. Continuing inflation could make both estimates low.

Based on EPA forecasts of generating capacity requiring sulfur removal equipment, by 1980 electric utilities will be required to spend about \$7.5 billion for scrubbers. The additional investment for precipitators to control particulates and monitoring could raise the total cost of these requirements to \$10 billion. Not included in these costs are the premiums for low sulfur fuels, the cost of controlling the oxides of nitrogen, and the increased operating and maintenance costs necessary to keep the equipment working. Nor do they include the cost of the additional 12 million tons of coal needed annually to provide the power to operate the scrubbers, or the 4 to 7 percent capacity derations from which that power will come.

Amendments to the Clean Air Act supported by the industry will achieve the nation's environmental goals, but will save consumers at least \$5 billion in the process. We are stressing a re-evaluation of air quality standards to assure they are not set beyond what is actually required to protect public health and welfare. Essential is a 10-year extension for enforcement of sulfur emission standards to permit research into the many unanswered questions about sulfation. The use of load shifting, intermittent control strategies and tall stacks should be viewed as a continuing option for meeting ambient air quality standards in the most economical way.

In the water quality area, assurance is required that standards will be established on the basis of what is really needed to protect the environment in the vicinity of a given power plant.

In general, cost/benefit considerations must be taken into account in establishing both air and water quality standards, with a plant-by-plant evaluation of necessary pollution control measures. National standards applied without regard for local situations probably would be much easier to enforce. However, in view of the nation's economic situation, a more realistic approach suggests we should do those things we can afford which makes sense.

This isn't to suggest scrubbers should be abandoned. Some 93 scrubbers are now in operation, under construction or being planned by 39 utilities. My company has taken a lead in the development of scrubber technology. At our La Cygne generating station, we have been operating the most extensive air quality control system ever installed on an electric power plant at a cost to date of \$45 million. We estimate that an additional investment over the next two years of \$10 million will be required to bring the seven scrubber modules to the desired level of design control capability at that plant.

Our decision to install scrubbers at this location was made because it was the only feasible solution to utilizing low-cost high-sulfur coals that were available from adjacent surface mines. While we think the decision was a good one for this location, the high cost of this technology suggests that it should be employed only where necessary.

#### STRINGENT MINING LAWS

Also destined to have a serious impact on electric service bills will be the upcoming strip mining legislation, which early in March passed both houses of Congress in slightly different versions by overwhelming margins. Among the broad provisions of these bills are new curbs on how and where land can be surface mined, including a requirement that land be restored to its approximate original contours, and allowing surface owners to veto strip mining by those owning the mineral rights. The proposed law would tax surface-mined coal 35 cents a ton and deep-mined coal 25 cents a ton to help pay for the reclamation of abandoned mining operations. The National Coal Association, which opposes the bills, told the press that added expenses caused by provisions in the bills, could raise the mined price of coal by \$2.50 a ton.

Perhaps of greater concern than this substantial increase is the fact that the law will probably prevent the mining of millions of tons of coal at a time when our nation needs it most. While no one would quarrel with the need for responsible reclamation laws, the surface mining bills in their present form -- with more stringent provisions than those in the bill which the President vetoed last year -- are a move in the wrong direction. Considering the mood of Congress, the bill which emerges from the conference committee will be stringent, and will probably become law.

The United States has far more coal than the world oil and natural gas reserves combined. The known U. S. supply is estimated at between 300 and 500 years. However, environmental regulations prevent the burning of an estimated 80 per cent of this coal. The strip mining bill will further reduce the usable reserves.

#### REGULATORY LAG

I mentioned regulatory lag as a serious problem. This is a term used to describe the time delay between the application for a rate increase and

the final decision by regulatory authorities. Private utility companies are regulated by state agencies, which operate under the authority of statutes originally adopted 50 to 60 years ago. The process worked well up until recently when it has become apparent that it is not geared for the emergency of these times.

Rate increase applications are handled in various ways according to procedures following statutory requirements. But, in general such applications seek a stipulated rate of return on an historical rate base -- the total investment in plant and facilities dedicated to rendering service to customers during a test year -- a time period preceding the rate application.

The process involved in evaluating an application usually includes a complete audit of the test year expenses by the state agency, adequate accommodation for the testimony of the public and intervenors, and both public and formal hearings. At the formal hearings, testimony of the agency staff, concerning the audit, the company and all intervenors is heard by the regulatory commission, complete with cross examination of witnesses in a court-like atmosphere. The process for rendering a decision often takes from six months to more than a year.

The unprecedented inflationary pressure since 1970 and regulatory lag have combined to wipe out a large portion of the increases authorized. This has placed utilities in the awkward position of increasing the frequency of rate requests in an effort to earn the rates of return authorized by the state. Translated another way, in recent years, many rate increases have been too little, and even when substantial rate relief has been granted it has often been too late. Consequently, even though electric bills have climbed in the last two years, the actual cost of service rendered has not been met.

These factors have placed the regulatory authorities in the difficult position of maintaining the balance between consumer interest and the financial integrity of the firms they regulate. Some recent improvement has been made in the time delay. Some commissions are permitting a forward-looking test year based, in part, on projected results. However, more creative ways of accelerating the evaluation process will have to be adopted while at the same time protecting the public interest.

#### CONSERVATION

Further compounding the situation has been the reduction in usage by customers. This has been partly due to national appeals for conservation of energy, but the economic recession and price elasticity have also contributed. Kilowatt hour sales by the industry declined slightly in 1974 from the prior year. However, while general usage was down, in most cases demand during peak periods was not. Last summer, the customers served by my company set six all-time peak demand records. The final record was actually slightly higher than pre-conservation estimates.

The reduced general usage has caused a slight increase in rates for the same reasons that increased usage resulted in a reduction in rates over the last seven decades. The fixed charges of taxes, depreciation and interest cost have to be spread over fewer kilowatt hour sales. The thought of being penalized for conserving, rather than rewarded, was disturbing to most consumers. However, the net savings from cutting waste will always be more than any conservation adjustment to rates.

#### THE CURRENT PREDICAMENT

With some risk of over simplifying a complicated series of events, this review of major problems brings us to the current predicament. We have moved very rapidly from a long and uninterrupted era of cheap energy to a time of more expensive energy. The necessary adjustment to this economic fact of life is bound to have a serious impact on society. However, of far more serious concern than the question of price is the question of reliability and availability. Some experts believe the conditions are already set in motion which will result in brownouts and blackouts in some parts of the nation within the next four years. Prospects for electric power supply over the next 10 to 15 years appear equally questionable. The problem mainly relates to money.

The capital intensive electric industry has only two basic sources for expansion funds: internally generated cash and the outside investor. Traditionally, about 40 percent of capital requirements are generated internally. This capability is being undermined by the reduction in earnings experienced by many companies. The remaining source, including purchasers of bonds and common and preferred stocks, depends upon a stable market and investor confidence.

Current interest rates on the open market for long-term first mortgage bonds of many utility companies have been in the 11 to 13 percent range. Some preferred stock issues have had dividend rates as high as 14 per cent. Last April, Consolidated Edison of New York omitted a quarterly dividend to common shareholders, the first such action by a major utility. What happened as a result was a devastating blow to the entire industry. Within six months, the common stocks of electric companies listed on the New York Stock Exchange, which had been in a gradual decline for several years, had lost an estimated value of \$100 billion from a decade earlier. Consequently, today most electric utilities' common stocks are selling below their look values, some 60 per cent or less.

#### CONSTRUCTION CURTAILMENTS

This kind of financial atmosphere, coupled with the reaction to higher rates and doubts about being able to generate the revenues necessary to support capital expansion, has caused every electric company to re-evaluate future construction programs. Within the last year, 100 major electric companies have deferred or postponed indefinitely power production units

with a combined capacity of 170,000 megawatts. Some 110,000 megawatts of this was nuclear generation. The nuclear units have a higher capital cost, but much lower operating cost and are directly related to national goals for reaching energy independence. If completed, these nuclear units would reduce the demand for fuel oil by an estimated 3.3 million barrels of oil a day, or the equivalent of about 300 per cent of current Middle East imports.

For the short range, the deferments of base-load capacity are causing many companies to resort to the alternative of adding oil-fired peaking turbines. Such units can be installed for about one-fourth the cost of coal-burning units. Their disadvantage is much higher fuel cost and the use of a fuel which is in short supply.

While consumption was flat in 1974, current reports indicate that growth has resumed and will continue in the 4 to 6 per cent range for the next few years. These estimates do not provide for the impact of fuel switching by consumers to electricity.

#### THE LONG RANGE

For the long range, a limiting of base load capacity will mean higher consumer prices. Some are saying the only solution is socialization of the power industry. This is a natural first reaction, as if a complete government take-over would in some magical way eliminate all of the forces contributing to the situation. Ironically, at the same time, some customers of municipal systems beset by the same problems are approaching private companies to take over the public systems. It is also interesting to note that in the last eight years, the residential rates for power supplied by the Tennessee Valley Authority have increased twice as fast as the comparable rates of private companies.

Should a government take-over be seriously considered, one wonders if the government could afford the cost, coupled with the loss of tax revenues. Currently, about 22 per cent of the revenues of electric companies is paid in taxes to various taxing authorities.

Considerable study is being given to the problems of the electric industry by the government. There is reason to believe that the Administration and Congress are committed to the concept of a financially healthy investor-owned electric utility industry. Title VII of the Administration's Energy Independence Act deals mainly with encouragement to state regulatory bodies to improve regulation, by eliminating undue regulatory lag, allowing fuel clauses, permitting the inclusion of construction-work-in-progress in the rate base, allowing off-peak pricing, and eliminating prohibitions against the use of normalization in accounting.

In the recently signed tax bill, the investment tax credit for utilities was raised from 4 per cent to 10 per cent, and in other legislation consideration is being given to a proposal for a tax deduction to the corporate issuer of preferred stock dividends.



The single most effective measure to stimulate investor interest in the industry would be tax exemptions for the recipient of dividends on electric utility common stock and new issues of preferred stock. The industry has proposed both of these plans to the Administrations and Congress.

#### RELIABILITY VERSUS RETRENCHMENT

At basic issue in the entire situation is a reliable and dependable source of electricity supply for the future. The electric companies of the United States, which serve about 80 per cent of our nation's consumers, have had a remarkable past record of reliable service. Utilities do not have the uncomfortable, yet welcome option of retrenchment available to most enterprise. Utilities have an obligation to serve the customer within their service areas. Regulatory agencies have a legal obligation to establish service rates permitting financial integrity to be maintained. Consumers have an obligation to pay for the service they demand. And finally, government has an obligation to establish a balance that enables the system to function.

Perhaps "balance" is the key word. The solutions to inflation will come only after long, arduous and reative effort, and will require sacrifices from every citizen. In this regard, the first step is the attainment of energy independence, which will stop the outflow of cash for oil. Strip mining constraints and the drive for environmental cleanup have to be balanced in accord with the higher priority.

The role of nuclear power is also vital to energy freedom. It can also solve most of the intermediate electricity supply problems and assure consumers of the lowest cost energy. The electric industry long recommended the establishment of a national energy council to coordinate the nation's energy policies. We hope the new Energy Resources Council can meet this end. Through whatever avenue it can be done, however, action must be taken to maximize the use of coal and nuclear fuels, so that oil and natural gas can be conserved for those purposes for which they are uniquely suited. And somehow the means must be found for expediting procedures at all levels of government for reaching decisions on energy facilities. Implicit in this are improvements in administrative, regulatory and judicial processes involved in nuclear plant approvals.

For the longer term, research and development has a major role in assuring a sound energy future for the nation. Two years ago the Electric Power Research Institute was established at Paola Alto, California, to conduct a privately financed, coordinated program for the development of new technology. EPRI's work complements the fundamental research programs of the Federal government, as we pursue the development of a wide range of energy sources -- solar, geothermal, fuel cells, wind power, magnetohydrodynamics, and fusion. Technological breakthroughs are needed if any of these promising sources can be developed before the turn of the century, or longer.

## IS THE ROMANCE ON THE ROCKS?

For the most part, I've painted a dark picture for most of you in my remarks this afternoon. Not to have done so would have been less than honest. I do not personally believe that the long-standing romance between the electric industry and consumers is on the rocks. We've seen some rough times, and perhaps more difficult times may be ahead. While the days of cheap power are over, if we are permitted to do our job, we will continue to deliver reliable power at relatively low cost.

Reaching that point, however, is going to place a special burden on consumers, and those like yourselves who lead consumer opinion.

A large part of the problem can be attributed to the industry's failure to communicate effectively its situation to consumers. We are taking steps to remedy this. And rising power bills may guarantee a listening audience.

Government is in the business of making societal decisions, which require input from an informed electorate. In the past, I sense many of the decisions have been made without much input from the people who eventually pay the bill. In this regard, we usually obtain the kind of government we deserve.

Just as the electric industry is going to try to do a better job of communicating, I hope consumers will do their best to become informed on the complicated issues involved in energy. The decisions now being made are so crucial to the economic well being of our nation and our families, it is imperative that they require the input from an informed majority.

Thank you again for your invitation and your kind attention.

THE CONSUMER MOVEMENT IN

THE ENERGY CRISIS

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Special Note -- May 1, 1975

"This paper may be pertinent to President Ford's announced opposition to the Agency for Consumer Advocacy Bill (S.200). It demonstrates some of the shortcomings of the non-statutory consumer office as a means of making meaningful consumer input into Federal Agency decision making."

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Attention should be given the proposition that the consumer movement should effectively represent consumer interests in energy policy in the public forum. The social purpose of consumerism includes this function, known in the credo of consumer advocates as the right to be heard.<sup>1</sup>

Definitions

An evaluation of the consumer movement's achievements in influencing U.S. Government energy policy requires some standardization of terms. The consumer movement is defined as a loose coalition of 75-100 private, non-profit organizations who are generally regarded as representatives of consumers through an assortment of methods and techniques in public arenas.<sup>2</sup> Most have no staff.

Energy policy is the general thrust and direction of programs of the Federal Government of the U.S. in dealing with the production, importation, pricing, marketing, and social and economic impacts of fossil fuels, other primary energy sources, and electric power. Not all aspects of energy can be said to be the subject of Federal policies.

The energy crisis is the popularized term relating to U.S. energy supply and price problems resulting primarily from the Arab embargo of U.S. oil imports from October 1973 to March 1974. The natural gas shortage, a purely domestic supply problem is also included in the popular use of this term, as are related developments in substitute fuels (coal, uranium) and electricity, the derived form of energy produced from numerous primary fuels.

### The Energy Crisis

The energy crisis, its causes and results, is perceived in many ways. Perceptions and realities often have parents from different tribes, and thus it is highly instructive to examine conventional wisdom. In the midst of crisis, there is little real consensus on the essential nature of the U.S. energy problems of 1973-75.

The following statements represent the kinds of expressions, sometimes verified and sometimes not, that are often associated with the energy crisis:

1. Jersey Central Power & Light electric rates rose to 3.27¢ KWH from 1.59¢ KWH between June 1973 to December 1974. This is a 105% increase in 18 months.<sup>3</sup>
2. Electric and gas utility bills rose \$9.6 billion in 1974 while power consumption rose 1% and gas dropped 4%. Two thirds of those increases were due to higher (energy) fuel costs.<sup>4</sup>
3. Long lines at gas stations during only a few weeks in 1974 threatened social chaos. Consumer frustrations in turn led to gas station shootings, panic buying, and the near collapse of automobile tourist-dependent industries and local economies.<sup>5</sup>
4. Some poorer people were acknowledged to have stopped buying heating oil at its much higher prices in midwinter 1973-74 and 1974-75 compared to prices through 1972-73.
5. Electrical heat for houses of moderate income people resulted in \$200 monthly electric bills in winter periods of 1973-74 and 1974-75.
6. Prospects of major unemployment problems in a year or two were in sight due to natural gas shortages and the lower supply priority for major industrial gas customers.
7. The prospect of controversial nuclear power as a major solution to fossil fuel shortages has become increasingly real in the electric power industry.
8. Arab sheiks were accused of conspiracy.
9. An unspecified oil company conspiracy to increase profits has been suggested more than once as a major cause of the crisis.<sup>6</sup>

10. The Federal Government's options for dealing with the crisis such as through gasoline rationing or 40¢ per gallon taxes on gasoline were often regarded as worse than the problems they were designed to solve.

All of these ways of describing the phenomena of the energy crisis are a familiar genre. The crisis is many things, but the results of it are primarily consumer issues. The ultimate purpose of all U.S. economic activity (and thus the U.S. use of energy resources) is largely to deliver a material standard of living for 212 million people.

Energy problems then are primarily consumer problems. Energy may cost too much. Energy's use affects the physical environment and public health. Energy may be short in the forms of the particular fuels the nation wants. Energy costs and supplies influence life styles and standards of living.

One item of national consensus to date is that the problems of energy are so important and complex that the Federal Government should decide how the issues are going to be resolved.<sup>7</sup> The basic choices aren't clear yet, but in spite of the confusion, the President and the Congress appear headed toward some major decisions within a short time -- during 1975 for certain. The laws that emerge may hurt consumers or help consumers, but as in the case of the recently revised oil depletion allowance, Congress may act on energy without really debating the consumer side of energy issues very much at all.<sup>8</sup>

How should Congress move on the many issues? Should government impose new regulations in some areas? Should we rely on market forces and get government out of supply allocations and price setting in oil and gas particularly? These are matters of enormous importance for the consumer public.

The consumer interest is clear in this scenario, but consumer representation to date has been rather ineffective where it has been present at all.

#### The Historical Record

A short history of events since late 1973 underscores the difficulties of providing consumer input into energy policy.

Prior to the Arab Embargo, consumer interest in energy policy was, to be indelicate, absent. The conditions that made the U.S. vulnerable to shortages imposed by the embargo in October 1973 and then vulnerable again to the prices imposed by OPEC in December 1973 have long been developing. Government too had done little up to that point. Industry, from oil companies to electric utilities, and a few miscellaneous researchers had shown a nodding recognition of the growing strains on domestic energy supplies, but nobody had yelled "crisis" with force enough to generate action.

A researcher may want to count column inches of news print from mid-1972 to Fall 1973. While there was much press coverage of oil in this period and President Nixon appointed the "minor energy czars," there was no meaningful interest in energy expressed by consumer leaders. This time was before the OPEC countries applied the principles of competition learned from the American Business Schools they had attended<sup>10</sup> and the international oil companies

they then hosted. Those "minor czars," now all but forgotten, were General Lincoln and Governor Love, both totally absent from the national limelight in 1975.

The history of consumer movement involvement in energy since Fall, 1973, however, is a history of the Federal Energy Administration and the "major czars."<sup>11</sup>

The Federal Energy Office was created on December 4, 1973 to implement the Emergency Petroleum Allocation Act of November 27, 1973. Congress, unrealistically, mandated that the President establish an allocation program for crude oil and petroleum products by December 27, 1973, but no agency or even a core organizational unit of an agency existed to publish the required regulations and to implement such a nationwide system.

#### Phase I - Beginnings

There was no consumer office in the Federal Government capable of assuring even a modicum of consumer involvement in the crash development of the new allocation system in 1973. Nonetheless, the HEW Office of Consumer Affairs,<sup>12</sup> the government's small, but resourceful, consumer advocate unit, selected 23 of 23 of the original members of the FEO's Consumer Advisory Committee. This committee, since its inception, headed by Lee White,<sup>13</sup> former chairperson of the Federal Power Commission, quickly became the focus of the consumer movement's attempts to influence federal energy policy.

#### Phase II - Frustration

The early meetings of the Consumer Advisory Committee to FEO in December and January were non-eventful in spite of the whirlwind events of the embargo, the allocation program, and rising prices. The impact of the crisis became more evident in February, and some committee members complained publicly about their perceived ineffectiveness.

No other formal consumer input of a significant nature into energy policy developed within the Federal government prior to the creation of an Office of Consumer Affairs in FEO on March 13, 1974.<sup>14</sup> The new consumer office was the subject of significant fanfare in an attempt to dispel feelings of consumer leaders that FEO did not care about consumers.

#### Phase III - Institutionalization

The new consumer office, headed by the author, was the subject of generally rave public statements. The FEO's press release of March 13, 1974 partly quoted William Simon, Administrator,

"The consumer will have an even more active role in the formulation of agency policy and operational activities," Simon said.

"The new office will initiate research on consumer issues through independent and FEO sources, as well as act as a watchdog on consumer interests.

"The new office will work with FEO's regional and state offices, as well as with other Federal Agencies and State and Local governments to ensure cooperation and effectiveness.

". . . the new office will participate in FEO's issue meetings and other proceedings to help decide agency policy and direction."

The Consumer Federation of America said in a press release on the same day, March 15, that it "applauds the Federal Energy Office for its formation of an Office of Consumer Affairs."

Ralph Nader in the New York Times, March 14, 1974, was more skeptical,

"Mr. Simon has been criticized in some quarters for having 58 former oil industry employees on his staff. In contrast he has not appointed any of the recognized public interest specialists in the energy field to his office."

Evidently anticipating the appointment of Mr. Richardson, Mr. Nader said, "Another person from Virginia Knauer's office will not suffice to counterbalance the heavy weight of oil industry representatives you have now employed."

The development of an FEO consumer office was not the ultimate achievement of consumer activism on energy matters. The Citizens Energy Conference in mid-February in Washington was largely attended by persons not remotely part of the consumer movement. The spectrum of public interest groups included urban, environmental, ethnic, poverty, and assorted others except for the traditional consumer groups. The conference had no subsequent reincarnations, but instead indicated that much of the consumer concern with energy economics and politics was outside the consumer movement.

The life span of the FEO/FEA consumer office was not particularly eventful. While it waged a quiet war within FEA under Administrator John Sawhill, it produced no visible changes in policy. In carrying out an assignment to analyze substantive consumer issues, it forwarded memos on various subjects that were not made part of the public record.

The relationship of the consumer office to the consumer movement was perhaps typical of the covert relationships of consumer office staffs in the Nixon Administration with the public. Informally, the dialogue was active, but internally the consumer offices had to demonstrate agency loyalty to Administration policy. The official public statements of the FEO consumer staff fell somewhere in between their expressions in informal dialogue and their internal agency stances. The system works well in spite of the sleight of hand in various dialogues because consumer office staff is rarely so publicly visible that it is called upon to be consistent with all of its internal and external publics.

The consumer movement, especially members of the Consumer Advisory Committee, FEO, in effect had created a consumer office through public pressure. The office was to represent consumers, including the Consumer Advisory Committee, in policymaking. Essentially, the process of working with the public had the following characteristics:

1. The traditional consumer movement organizations had little direct impact on the positions advocated internally by the consumer office. The indirect influence consisted primarily of the fact that the fundamental ideology of the movement and office staff were the same. The movement did not have a program to explicitly advocate to FEO and consequently did not prove useful in developing the technical rationale of defensible positions for the consumer office's internal bureaucratic advocacy activities.<sup>15</sup>
2. The office obtained assistance from general interest citizens groups other than consumer. The variety of these groups is self-evident from their titles alone<sup>16</sup> and included substantive issue-oriented individuals and groups as well as persons concerned with government procedures in the dealing with the public.<sup>17</sup>

Part of the concern of public interest, including consumer groups in this phase of the energy crisis was oriented to the access and procedural problems with FEA and immediate consumer welfare issues. The consumer welfare aspects included the suddenly higher cost of electric power for customers in electric systems dependent on oil-fired generation, the rising costs of heating oil and propane, and the price of gasoline for commuters among others. The welfare focus differs significantly from attempts to influence general policy-making in that it is directed toward alleviating the impact of past policy decisions and market conditions. The policymaker increases prices. The welfare analyst proposes fuel stamps, tax rebates, and emergency set-asides of cheap fuel to help those persons particularly disadvantaged by the policy that originally increased the prices in the market.<sup>18</sup>

The procedural issues that commanded so much of the attention of consumer and public interest groups were multifaceted. Many of the incidents were reported in the press in an effort to discredit the government's integrity and raise the spectre of conspiracies against the public interest. While the government's credibility often was justifiably criticized, one of the undesirable effects of such highly visible attacks on the "Devils" in Washington was to cause the public to think the energy crisis would be largely soluable if the crooks were just purged. The rising profits of oil companies, Watergate problems of President Nixon, rumors of withheld supplies of oil, numbers of former oil executives working within the Federal Energy Administration<sup>19</sup> and other influences certainly were suspect in the public view.

Congressional and press interest tended to parallel the themes of consumer welfare and bureaucratic deafness to the public interest. Few reporters, Congressional staffers, and members of Congress exhibited much familiarity with the complexities of substantive energy policy issues.<sup>20</sup>



#### Phase IV - Falling Out

The Office of Consumer Affairs was merged with the long dormant FEA Office of Special Impact in mid-August, 1974. The August controversy surrounding the former consumer office was acute and conflicting pressures on the new office from the Administrator of FEA as well as the public, press, and consumer groups have influenced the directions of the new office. Largely, the Office of Consumer Affairs and Special Impact (OCASI) withdrew from liaison from consumer and public interest groups in favor of a self-directed program of its own priorities. OCASI has probably achieved more tangible and measurable results than OCA did by this new course.<sup>21</sup>

OCASI's mission became further obscured by changes of Presidents and the rapidly disintegrating influence and exit of FEA Administrator Sawhill as Energy Czar.<sup>22</sup> OCASI inherited the administrative responsibilities of OCA for the Consumer Advisory Committee (redubbed with the easily forgettable name of Consumer Affairs and Special Impact Advisory Committee -- CASIAC!) The consumer committee has since largely repeated the frustrations of the early history of winter 1973-4 in the form of numerous unrewarded resolutions demanding it be taken seriously.<sup>23</sup>

No other institutions outside FEA have replaced dropout OCASI as the government consumer energy ear nor have the public interest groups interested in energy changed their composition or thrust as the voices of the citizenry. The interface of consumerism and government energy policy has largely stabilized at a near historic low ebb.

#### History's Lessons

The current status of the consumer movement in the energy crisis is a subject for theologians more than social scientists. The consumer movement is present more in spirit than in body.

The high points of the situation are worth mentioning, however, because there isn't a total vacuum.

1. A Citizens Energy Platform covering nuclear, environmental, problems of minorities and a diverse package of issues has been put together by a Washington-based coalition of activists, mostly not traditional consumer groups.<sup>24</sup>
2. The Consumer Federation of America has been notably active on natural gas deregulation. It favors continued price ceilings.
3. The National Consumers Congress has begun reporting its views on energy in a substantial way through its newsletter.
4. Several lawsuits involving the Consumer Federation of America (CFA), Consumers Union and others on subjects such as two-tier pricing, propane overcharges, and the Federal Power Commission's emergency gas sales have been significant and sometimes successful.<sup>25</sup>

5. There has been a groundswell of state and local groups interested in electric utilities -- rate questions and nuclear plants in particular -- who are not connected with the consumer movement's national organizations.

The consumer movement has aptly demonstrated its several key recurring problems in energy since 1973. First, it doesn't have a recognizable program on the substantive issues. While CFA and others have passed many resolutions and developed the Citizen's Energy Platform, these statements do not offer complete alternative programs for implementation by Congress, FEA, state governments, <sup>26</sup> or the President.

The basic reason that there isn't a consumer energy program is because of a truism: no organization has done the necessary thinking to create one. The issues are complex. The tradeoffs are seen as so painful that they aren't made. Instead of compromising on energy growth, prices, and environmental costs, for example, it is easier to throw up one's hands and demand all: low prices, plentiful supplies, and clean air and water.

A second problem of the movement is that it gets too involved with procedure and makes the right to be heard the primary end in itself. This is not to say that much can be accomplished without consumer offices, advisory councils, and full disclosures by Federal agencies. It hasn't so far. It is very true that there is no one listening and responding significantly in substance in FEA, the White House, or Interior. Virginia Knauer's office has not one person who is an energy specialist and FEA's OCASI is bureaucratically isolated. Consumer advocates can be and have been led to mumbling and grumbling about their lack of access; so much to the extent that they appear to ignore the substance of their purpose: national energy policy questions.

The third and most unnecessary problem is that the consumer movement has not unified scattered forces into a recognizable voice and force on energy policy matters. There are four levels of public spirited activity or potential that have not jelled into a political voice.

1. The national consumer organizations.
2. The national public interest groups with similar interests to consumer groups. Environmental groups' concerns with electric utilities are nearly identical to those of consumers.<sup>27</sup>
3. The state and local activists interested in prices of fuel oil, rising rents due to heating costs, and in particular electric utility rates.
4. The 99% of the public that is feeling energy crisis impacts, is impatient with unresolved political debate, and has nothing to do with any of the above three levels.

The first problem -- substantive analysis -- is not easily resolved even if it is obviously beneficial to the purposes of consumer organizations. Should consumer platforms develop, problems of organizing consumers behind

them and impacting on the government would be made presumably much easier. Intelligent leadership by some consumer leaders with the answers isn't simply going to occur through positive thinking alone. Perhaps, for example, the consumer movement suffers from the fact that the fledgling consumer education movement hasn't had the time to produce the consumer professionals, consumer leaders, and enlightened citizens who could lead it, the consumer movement, to effectively help solve energy issues for the public good.

Certainly, too, energy is not the only issue area where the consumer movement has not so far succeeded in influencing national policy.

### Complex Issues Still

Lest consumer leaders and educators think that the issues in the energy crisis are fairly well defined and that resolution of these issues is merely a matter of deductive logic, a look at those substantive issues should dispell the notion:

1. The Oil and Gas Journal (March 24, 1975) reports U.S. oil producing areas are posting record high prices. Domestic prices have hit \$12 per barrel. Gasoline prices too have started rising after months of steady decline. All of this is occurring during a literal supply glut, which economists would say should further depress prices or not allow them to rise. (Oil and Gas Journal, March 24, 1975, p. 20; March 31, 1975, p. 52)
2. Environmental Action (March 15, 1975) reports that liquified natural gas -- imported gas which some hope will solve domestic shortages -- creates potential for accidents that is literally beyond belief. The Federal Power Commission said in 1974 that a single serious tanker accident could kill or severely burn 807,000 people in New York City, according to the magazine.
3. Nuclear power is another very real proposed alternative to oil and gas costs and shortages. The proven U.S. reserves of U<sub>3</sub>O<sub>8</sub> contain an 8 year supply at current projections according to the Atomic Energy Commission (now the Nuclear Regulatory Commission). Forbes, January 15, 1975, points out the potential for rising prices of U<sub>3</sub>O<sub>8</sub> and that U.S. dependence on foreign sources is potential for another international cartel similar to the organization of petroleum exporting countries (OPEC).
4. The Economist, March 7, 1975, claims a growing world glut of oil is destined to lower world prices very soon. Since Alaskan oil (per barrel) will cost \$1.25, Arab oil now costs 10¢, and Louisiana offshore production is costing under \$4, the fall in prices could easily wreck OPEC, cause prices to go to \$5 or less, and abruptly stop the energy crisis altogether.
5. The U.S. is entering soon into a major oil conference with other nations, already agreed in principle that the U.S. should hold domestic and imported energy prices up. This is to be done so

that oil companies will invest money to bring in new supplies which should bring prices down in the long run. Mr. Kissinger has shaped this U.S. policy now called the "Safety Net": a floor on prices designed to be high enough to cause prices to be low.<sup>28</sup>

In summary, the consumer movement would be expected to represent consumer interests in national energy policymaking. The stakes for consumers are quite high. The issues are complex and many of the realities and facts are still not clear. In overcoming its present shortcomings as the effective consumer voice, research into substantive issues and then the development of positions on those issues is the difficult, necessary first step.

## Footnotes

1. John F. Kennedy. Message to the Congress, March 1962. This right to be heard implies that consumers not only will be heard by business, government and other institutions, but that these organizations from time to time will listen and possibly even respond with actions favorable to consumers.
2. "Voluntary Consumer Organization," an unpublished listing periodically updated by the Office of Consumer Affairs, Department of HEW, Washington, D.C. 20201. No definitive list of such organizations is recognized universally in the literature nor can it be because of the constant turnover of such national, state and local groups.
3. New York Times, March 25, 1975.
4. Ibid.
5. Winnebago Industries, for example, the leading maker of recreational vehicles, saw its common stock drop to 5% of its former price at one point in 1974.
6. An editorial in Today's Sunbeam newspaper, Salem, New Jersey, March 24, 1975, says for example, "One's gorge rises at allegations that fraudulent oil supply schemes may have cheated American consumers out of billions of dollars. As many Salem Countians suspected at the time, those oil tankers weren't cruising back and forth in the Delaware River in late 1973, heavily laden in both directions, for the fun of it."
7. Disagreement on this point comes from some quarters. See Charles F. Luce, "A Battle Plan to Beat the Energy Crisis," Reader's Digest, March 1975. Luce is a leading electric utility executive.
8. Congressional Record, primarily in February and March 1975.
9. Robert A. Anderson in writing "The Energy Crisis" just prior to the Embargo in the conservative opinion quarterly, Freeman, August, 1973 wrote forcefully against government intervention in the atmosphere of crisis he saw approaching in the U.S.
10. Sheik Yamani, Saudi Arabia's chief oil negotiator is a Harvard Graduate.
11. William Simon, December 1973 to April 1974; John Sawhill, April to November 1974; Rogers Morton, November and December 1974; Frank Zarb, December 1974 to date. Morton, Secretary of Interior never was influential because unlike the other three, he did not serve as Administrator of the Federal Energy Administration (until June 27, 1974, FEA was the Presidentially created Federal Energy Office.).

12. The Department of Health, Education and Welfare is the bureaucratic location of the Office since July 1973. Its head, Virginia H. Knauer, also Special Assistant to the President, gives it the role as consumer advocate within the entire Federal system. The Office normally has had a staff of 50-55 since 1973, but the vast majority are involved normally in administration, public relations, publications, and complaint handling functions rather than policy matters.
13. White, still chairman of FEA's successor Consumer Affairs and Special Impact Advisory Committee, is a Democrat and heads the Energy Task Force of the Consumer Federation of America. White is outspoken and a leading critic of Federal energy policy. His appointment was only one of several that made the committee membership unusually credible to the consumer movement.
14. Virginia H. Knauer's Office had loaned several staff members to FEO Office of Gasoline Rationing Planning. The Rationing Office disbanded on April 12, 1974.
15. The office failed to identify means of gaining significant assistance in its mission for a possible number of causes. Substantive energy issues are quite complex technically. Outsiders often don't know subtleties of the bureaucracy's policy games enough to be useful. Policy is often decided in a great haste before outsiders can be consulted. The consumer movement doesn't have the expertise or personnel of any sort to establish the working liaison necessary to effectively lobby or influence policy. The office may have misread consumer movement priorities and thus failed to interface at the right moments on the issues of concern to consumer leaders.
16. Outstanding amounts of assistance came from the Center for Science in the Public Interest; Lobel, Novins & Lamont; National Urban League; Environmental Action Foundation; Movement for Economic Justice; Center for the Study of Responsive Law and Common Cause. Consumer groups were not totally absent, of course, but were relatively less important.
17. Too much emphasis was procedural in the view of the author. The Office also at first spent too much time complaining it wasn't consulted rather than demonstrating its expertise and thus why it ought to be consulted. In any event, FEO did not seek consumer movement leaders views of a substantive nature through its consumer Office at any time as it had originally stated was the purpose of the office.
18. OEO, now Community Services Administration, has two excellent publications on this subject from a government perspective: Coping With the Energy Crisis and The Great Energy Crisis of 1973-74.

19. Most notable was the announcement by Czar William Simon, that 54 then, 69 persons with former energy industry connections were in professional and policy level positions in FEA in early 1974. Most criticized in various Congressional hearings was Robert Bown, a Phillips Petroleum executive on a one year leave with the government, who had been an important figure in January 1974 in the development of regulations under the Emergency Petroleum Allocation Act (see Washington Star News, January 1974). Another notable figure until March 15, 1975 was Assistant Administrator Duke Ligon, formerly with Continental Oil. Later, the subject of bitter Congressional debate in Fall 1974 Senate confirmation proceedings as Assistant Administrator was Melvin Conant, formerly with Exxon Corporation, Conant, whom this author regards as the most creative thinker at high policymaking levels in FEA in mid-1974, by all evidence will be a sorely missed public servant when, as he indicated openly to the Senate, he in some likelihood returns to the petroleum industry. (See Problems in the Federal Energy Administration's Compliance and Enforcement Effort, General Accounting Office, Washington, D.C., December 6, 1974, for a more analytical view of FEA's failings as an allocation agency.)
20. Exceptions were and continue to be Edward Cowan of the New York Times and staff reporters of the Economist (London) in the press corps. Senators Hubert Humphrey, Henry Jackson, Russell Long, and Howard Metzenbaum exhibited comprehensive grasps of energy issues, although they did not often come to the same conclusions.
21. OCASI has begun its own regional public conferences and is largely responsible for FEA's announced intention to fund studies of electric utility rate structures (New York Times, March 25, 1975). OCA on the other hand did not conduct programs and assisted successfully in only one major funding project now being completed in the Paul Douglas Center, non-profit research affiliate of the Consumer Federation of America.
22. Sawhill's decline is objectively seen by the British weekly, The Economist, September 7, 1974. Sawhill was criticized by oil lobbyists as too aloof, by consumer advocates as unfair, by Federal government insiders as a poor manager, and by his chief bureaucratic rivals as uncooperative. Sawhill openly disagreed in public in October with official White House views, was removed, and in departing gained new allies out of former critics in the environmental and consumer groups who now agreed in his view favoring conservation as the most desirable energy priority through 1978-9. Sawhill's grasp of substantive issues, his academic openness in public meetings (a Ph.D. economist and former Assistant Dean at New York University), and his intellectual honesty and non-negotiable position on the issue of conservation were not his only strengths as Czar.
23. Transcripts of committee hearings are available for viewing at FEA, Washington, D.C. 20461.
24. Available for \$1.00 from National Consumer Congress, 1346 Connecticut Avenue, N.W., Washington, D.C.
25. See Oil and Gas Journal, March 24, 1974, p. 37.

26. The Council of State Government's National Governor's Conference has a national energy staff. Louisiana, among other producer states, lobbies in force at taxpayer expense quietly with producer organizations -- the multinational oil companies, in particular.
27. Environmental Action issues in recent months are sufficient proof of this point.
28. It follows then (sic) that the higher the price, the lower the price.



ABSTRACT

THE CONSUMER'S REAL NEEDS

Sidney Margolius  
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There are no more important and urgent needs than those of the consumer. The consumer's problems are the nation's problems, and the waste of consumer resources that have become so flagrant in our time, has been proven to be the waste of the nation's resources, and is responsible for many of the energy and environmental problems, and the teetering inflation and recession, that plague our country and frighten our people today. Much of the purported consumer protection falls short of the consumer's real needs. Our gains mostly have been some lessening of deceptive selling methods, some reductions in product hazards, and slow but useful reforms in the pricing and merchandising of prescription drugs and over-the-counter medicines. But effective consumer protection has been almost wholly absent in defending the public against the real problem of the day -- the relentless inflation which has already seen a transfer of billions of dollars from consumers to the pockets of oil companies, mining companies, banks, and food processors. The rise in living costs actually has wiped out all the wage gains made by the average worker in the past seven years.

There are six overriding problems today on which consumers need serious help. These problems are: 1 -- The high cost of food. As you know well enough, food prices have gone up 72 per cent since 1967 and 9 per cent just in the past 12 months.

2 -- Booming medical costs and inadequacies of present private medical insurance, causing real anxieties in many families and encouraging high-pressure promotions of low-value insurance plans seeking to capitalize on these anxieties.

3 -- High housing and operating costs, including mortgages of 8 to 9 per cent and a nation wide increase in fuel oil costs of 107 per cent since 1970, utility rates of 50 per cent, and 16 per cent in the past twelve months alone, with more to come.

4 -- The widespread effects of high interest rates, coupled with collection laws stacked on the side of the sellers. These high rates affect consumers directly in financing homes, cars and other needs, and also lead to high property and other taxes as government and municipal agencies also pay more on their borrowings.

5 -- Serious quality problems which have led to high repair costs especially for cars and household appliances, and which even create safety hazards as shown by the investigations of the Commission on Product Safety. The lack of quality standards, and the further deterioration of quality in a period of inflation, has caused an increase of complaints -- about furniture and clothing now as well as cars and appliances.

6 -- The big jump in costs of car ownership due to the increase in gasoline prices, plus the lofty prices of cars, the already high cost of auto insurance, and the big increase in charges for maintenance and repairs.

-- abstracted by Karen Hull