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# How to Win the Energy War

By FRANK G. ZARB  
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With gas prices hitting yet another all-time high, consider this: while history is littered with examples of countries that were forced to change their domestic and foreign policies because of the lack of a natural resource, there are very few notable instances of nations that had the ability to eliminate such a vulnerability but didn't. America's current energy condition, however, is a spectacular example of such a failure. Consider four facts:

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**No. 1:** The United States is very vulnerable to the interruption of its imported oil supply.

**No. 2:** This dependence on oil has a huge effect on our foreign, military and economic policies.

**No. 3:** America could have reduced its vulnerability if it had taken decisive action after the 1973 Arab oil embargo. (In 1973 America imported 35 percent of the oil it used; today that figure is greater than 60 percent.)

**No. 4:** We have never adopted a credible plan to reduce our dependency principally because of a lack of political will.

Back in 1975, President Gerald Ford used his State of the Union message to inform Americans how dangerous our growing dependence on foreign oil was: "We, the United States, are not blameless. Our growing dependence upon foreign sources has been adding to our vulnerability for years and years, and we did nothing to prepare ourselves for such an event as the embargo of 1973."

But he did more than fret. He had a plan. "Within the next 10 years," he announced, "my program envisions 200 major nuclear power plants, 250 major new coal mines, 150 major coal-fired power plants, 30 major new refineries, 20 major new synthetic fuel plants, the drilling of many thousands of new wells, the insulation of 18 million homes and the manufacturing and sale of millions of new automobiles, trucks and buses that use much less fuel." INSIDE:

It was clear that President Ford's initiatives would materially reduce dependence on oil imports, but would also increase consumer energy costs and raise important environmental problems. Liberals complained about "excessive" new energy production efforts, and the right about the heavy hand of government.

While the Congress debated, the normal oil supply from the Middle East resumed and prices came down. Congressional economists put forward new arguments on what they believed to be the appropriate pricing of crude oil as reasons to avoid the harsh medicine President Ford advocated.

But there were two major flaws in these pricing models, which have bedeviled our energy policies ever since. First, OPEC has a very different idea of what is "appropriate." Second, the normal laws of supply and demand did not apply. Supply is determined by how many barrels of oil producers are willing to pump, refine and transport at any given time. And this is affected more by international politics and less by international economics.

The price volatility caused by this unique market has long caused business to limit its investment in new, higher-cost energy supplies. In response, the Ford administration studied various ways to institute a floor price for oil and guarantee an annual price escalation over 15 to 20 years. The thinking here was that if business could depend on a predetermined escalation of prices, it would make the necessary investment in production and conservation technology. Interesting concept ... but again the liberals roared with outrage and the conservatives laughed at such meddling with the economy. The idea went nowhere.

A few modest measures from the Ford program were passed by Congress, including the strategic petroleum reserve, which stockpiles oil in case the Middle Eastern spigot gets shut off, and having retailers label appliances for energy efficiency and automobiles for mileage. But, obviously, this was far short of what was necessary.

In a fit of frustration, I asked Senator Henry Jackson, the Washington Democrat who headed the Senate Energy Committee, what we needed to do to reawaken Congressional

interest. He asked me if I knew how to start another Arab embargo. He was right. Without a crisis, a real national energy program could not get past normal political paralysis. The Ford initiative was the last real national attempt to reduce our vulnerability.

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*Frank G. Zarb, the managing director of a private equity firm, was the assistant to the president for energy affairs in the Ford administration.*

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