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NEWS from U.S. Senator Bob Dole

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REMARKS OF SENATOR BOB DOLE TO THE COUNCIL FOR AGRICULTURAL SCIENCE AND TECHNOLOGY, INC.

KANSAS CITY--I appreciate this opportunity to be with you today. As I am certain you recognize, this is indeed a timely meeting on a most timely and important subject--a subject that is crucial to the future of agriculture and the nation.

Energy and Agriculture

The importance of energy and agriculture to the U.S. economy cannot be stressed enough. Simply stated, they are America's first and second largest industries, and the needs of both industries are closely interrelated. U.S. agriculture pumps out a staggering \$250 billion per year in food and fiber production, while consuming about 13% of this nation's total energy production. It would cease to function without adequate energy supplies.

American agriculture is a phenomenon unequaled in world history. It is the most productive and efficient agricultural system in the world. This degree of efficiency and high level of productivity has been achieved through the prudent and proper application of energy using technologies developed during a period when energy supplies were both cheap and abundant.

Essentially, these technologies have permitted a substitution of fossil fuel energy for human and animal energy. During the last five decades, farm labor has decreased from 27 billion man-hours to less than 7 billion man-hours, while farm output increased by over 100%.

According to a study by a subcommittee of the Senate Committee on Agriculture and Forestry, the U.S. food and fiber sector is a highly complex interrelated system consuming approximately 13% of our total energy. It has allowed our nation to produce at such an efficient level that only one worker in five is today employed in this sector. This compares with developing nations where up to 80% of the population is involved in the production, processing and distribution of food.

It has been suggested by some that the U.S. food and fiber system uses too much energy, and that we should significantly reduce consumption--perhaps by returning to a more labor-intensive agricultural system. Such a transformation, however, would result in higher prices and less supply. It should be noted that the cost of energy-intensive technologies are still significantly cheaper than the cost of labor-intensive technologies.

The issue in America today is not the consumption of energy per se. In its purest form, extreme conservation measures run the risk of destroying the very technologies in agriculture and other industries that have allowed this country to achieve its high level of efficiency and productivity.

This point seems to be lost on the Carter Administration judging from the National Energy Plan which it submitted to Congress--and on the House which just completed action on the Administration's proposal.

Conservation is the cornerstone of the Administration's entire proposal. The reasoning behind the conservation strategy is complicated: some of it is sound, some of it is problematical, and some of it is simply wrong.

Basically, the reasoning goes like this:

First, the United States, in most sectors, is using more energy than it can afford. This is true. We are consuming more than we are producing, so we must import oil. That produces a balance of payments deficit, which affects the American dollar and creates various kinds of mischief both at home and in international money markets. The price of imported oil is set at an arbitrary and artificially low price, and today Americans are paying an artificially low price for petroleum products. The result is that the nation's true energy costs are hidden. We are paying billions, as a nation, to OPEC, but the cost to consumers does not reflect this "real" cost of energy. Their costs are low and so their consumption is relatively high. And the return to domestic producers is also kept low, with the result that they produce less and less, and we become more and more dependent on OPEC.

Emphasis on "Waste" Excessive

Second, the contention is that Americans waste energy. That has been a popular cliche for several years now and, as with most cliches, nobody stops to look very hard at it. I happen to disagree with a large part of that cliche. I disagree with it because what it is really saying is that Americans have too high a standard of living. It becomes not just a statement but an accusation: we are accused of taking vacation trips by car, we are accused of washing our dishes and clothes automatically, we are accused of having our thermostats too high for heat in the winter and we are accused of having them set too low for air conditioning in the summer, we are accused of having stereos and two TV's and electric tooth brushes. Now, some of our habits may be "excessive" and certainly they should be curtailed. But, some of these conveniences of modern life add to our productivity as a people. They provide us time, which lets us consume a little more and perhaps save a little more, create more capital, to create more productive capacity.

But social theorists back in Washington tell us that these consumption patterns are a waste. My objection is that the individual should be allowed to make that decision--not the Federal government. If the fellow who drives a station wagon or camper gets satisfaction from it, and can afford it, then it is not a waste to him at all. And, he is the only person who should have the right to make that value judgement.

Simply stated, what government has done is to control and regulate energy prices at artificially low levels, and then condemn the consumer for taking advantage of those low prices.

The consumer must be guilty of wastefulness in order that the government not be held guilty of stupidity.

Now, so I don't invite a counter-attack, let me say I recognize that it is possible to waste energy. A badly insulated house is wasteful, a hole in your gas tank is wasteful--any expenditure of energy which doesn't provide a commensurate return in productivity, comfort, convenience, or satisfaction is wasteful. But, I say also that artificially low prices provide an incentive for that kind of waste, and I think that in the last few years, as energy prices have risen, people have become more conscious of that kind of waste, and have voluntarily acted to curtail it.

Crude Oil Equalization Tax

Today, the Federal government has recognized half the folly of keeping domestic energy costs artificially low, and they propose to allow these prices to go up to the world price. However, this would be done by a crude oil equalization tax, rather than permitting the market to function.

The equalization tax would be rebated in what amounts to a massive income redistribution scheme. Home heating oil users would get special treatment through a rebate to home heating oil distribution, in addition there would be a per capita rebate.

Tax Policy Not Energy Policy

The Administration's proposal as passed by the House, makes it quite apparent that what we have is a tax increase package, not an energy independence plan. The Wall Street Journal noted last Friday in an editorial that Mr. Carter's bill amounted to something on the order of a 10% increase in Federal taxes-30% if one includes the 50¢ standby gasoline tax that Dr. Schlesinger is now trying to revive in the Senate.

My question is who is to bear the burden of these taxes and to what end? I think the common sense answer is quite obvious--the consumer, and with little prospect for reducing our dependence on foreign products. In its current form, the Administration's plan is beginning to run out of gas. Politically, it survives and perhaps it will prosper--but, morally and intellectually the Administration's program is bankrupt.

The decision to use the tax mechanism--rather than the market mechanism--to lift prices means that although the price would be set at the replacement cost of energy, the additional revenues would not be applied to actually replacing the spend energy through increased domestic exploration and development. And that decision is based on a conclusion which is plain wrong.

Increase Domestic Exploration and Development

That conclusion, which is the third element in the basic reasoning here, is that the United States has no appreciable amount of oil and gas left to go after. Therefore, why give the producers any incentive to go after it? That is the current energy gospel according to President Carter and Dr. Schlesinger.

The geologists tell us, however, that we have a fair amount of oil and gas left in this country. By their estimates, we have, in addition to 81 billion barrels of oil in identified reserves, another 61 billion to 149 billion barrels in undiscovered reserves.

The estimates for undiscovered natural gas reserves range from 32 TCF to 655 TCF. Our identified reserves are estimates at more than 450 TCF. To put these figures in perspective, total natural gas production in 1975 was 20 TCF. The geologists estimate that we have at least enough natural gas to last us another 50 years, even at the present high rate of consumption.

Mr. Carter and Dr. Schlesinger are part of a time-honored tradition in their view that America is running out of oil. It goes back to 1859, when oil was first discovered in Titusville, Pennsylvania. Right away, a group of whiz kids and alarmists began declaring we would soon run out of oil. That was before Spindletop came in Texas. It's been going on ever since. People saying there's no more oil, and producers going out and finding more. But in the past, there was an incentive to find it.

Finally, the government found a simple way to make its predictions come true. They just took away the incentive to find more gas and oil, by controlling and regulating the prices. The oil industry is the only major industry which is expected to function with controlled prices and uncontrolled costs.

This has been very popular. The oil industry has been everybody's favorite whipping boy and it is almost impossible to get bad press by attacking the oil companies. This single bit of political opportunism has sent the whole country tumbling right through the looking glass into Wonderland.

Today, the people of the United States face an energy shortage created in large part by the United States government itself. The government says that price controls and regulations are not the reasons for the shortage--the reason is because there isn't any gas and oil left to be found. And then, to counter the inconvenient facts presented by U.S. geologists, the government also says that even if there is gas and oil left to be found, the oil companies are too greedy to go after it because they can't make enough money on it. The prices the oil companies would charge would make them all filthy rich, hurt the consumer, destroy the economy, cause tooth decay and possibly induce cancer.

Now, don't misunderstand me. The American consumer should be no more gored by excessive corporate profits than by unnecessary and burdensome Federal taxes. But this doesn't mean that in order to protect the consumer, we have to realize the producer. We can have a windfall profits tax to ensure that producers make no more than a fair return on their investment.

We can have a plow back credit in the present proposed tax scheme to see that money goes into increased energy production and not into one more federal income distribution scheme. But neither of those are provided for as proposed. We are not helping the consumer with price controls that may assure he may someday not be able to buy energy at any price except that dictated by the Sheiks of Abu Dhabi.

Intrastate Gas Regulation

There has been one embarrassing flaw in the Administration's logic. Intrastate gas prices have not been subject to price regulation by the Federal government. The people in those states where gas prices were not regulated have more than adequate supplies of natural gas. They pay the market price for the gas. And worst of all, they aren't going broke. This leads to ugly conclusions about the feasibility of regulated prices, and it discriminates against those who are unable to enjoy the benefits of regulated prices and have to suffer along under the outrageous burdens of the free market system. Therefore, the President proposes, and the House of Representatives has agreed, that gas price regulations should be extended to intrastate pipelines. This is known as "distributing the shortage."

If the folks in the Northeast have natural gas shortages, the people in Texas and Louisiana and other producing states should have natural gas shortages too. We all have to sacrifice equally. I don't disagree with that. I want to point out though that many of the states which today depend on Texas and Louisiana have energy resources of their own, and they have laws which keep industry from developing those resources. We should all sacrifice equally. And we should all contribute equally, instead of the present situation where our producing states contribute to the energy supply, while some of our other potential producing states simply contribute to the energy shortage. Mr. Carter doesn't have a provision for that detail in his energy plan, but we're going to try to give him one in the Senate to help him out.