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# RECENT DEVELOPMENTS IN U.S. ENERGY POLICY

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HEARING  
BEFORE THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES  
NINETY-THIRD CONGRESS

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## RECENT DEVELOPMENTS IN U.S. ENERGY POLICY

THURSDAY, DECEMBER 5, 1974

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:10 a.m., in room 1202, Dirksen Senate Office Building, Hon. William S. Moorhead (member of the committee) presiding.

Present: Representative Moorhead.

Also present: John R. Stark, executive director; Loughlin F. McHugh, senior economist; Richard F. Kaufman, general counsel; Larry Yuspeh, professional staff member; and Michael J. Runde, administrative assistant.

### OPENING STATEMENT OF REPRESENTATIVE MOORHEAD

Representative MOORHEAD. The committee will please come to order.

This morning the Joint Economic Committee will hold a 1-day hearing in an attempt to clarify the administration's policy for dealing with the energy crisis, particularly in the short run. We will hear testimony from one witness, the Honorable Rogers C. B. Morton, Secretary of the Department of the Interior, better known to me as a former member of the House of Representatives.

In my 16 years in Congress I have never heard testimony as thought-provoking and sobering as the testimony we have heard before this committee in the past week. We have heard discussion of the grave impact of the tremendous increase in oil prices on our balance of payments, on developing and other developed nations and on the financial institutions of this country. The testimony we have heard has not been optimistic. It appears that the high prices of imported oil are here to stay, at least for the near future. Talk of the cartel disintegrating has disappeared as the cohesion of the OPEC nations becomes stronger, not weaker. Efforts to persuade the OPEC nations to relent are meeting with no success. In fact, it appears that the prices are more likely to go up than down, particularly if the OPEC nations attempt as proposed to tie the price of oil to the world inflation rate.

Yet, we have not heard an overwhelming abundance of solutions to these grave problems. In the long run we can hope for alternate energy sources, a breakup in the cartel or the development of oil and natural gas resources in the non-OPEC nations. For the short run we have heard one consistent and overriding view: that we must engage in a massive energy conservation program on a worldwide basis in cooperation with the other consumer nations.

It has become apparent to me, and to the witnesses we have heard in the past week, that the present voluntary conservation program is likely to be woefully inadequate. When the embargo ended and gasoline lines disappeared, our energy conservation efforts lost their sense of urgency. While the demand for fuel is still below anticipated levels, the decline in consumption is as much a function of recession as conservation. I might add that 7- to 8-percent unemployment is not my idea of a mandatory energy conservation program.

One point in particular that our witnesses emphasized was the need to exercise strong leadership backed up, if necessary, with mandatory conservation measures. Mr. Secretary, you are an honorable man who has spent many years in public service. I know that you are working hard to formulate a rational and comprehensive energy policy, but don't you think it's time to be frank with the American people and with their representatives in Congress, and clearly lay the alternatives before us? If voluntary conservation measures are insufficient, what are the alternatives that the administration would advocate? If nothing else, confronting the American people with the possibility of an increase in the gasoline tax or rationing might well inspire a new and more serious voluntary commitment to conservation.

The American people sense that we have a critically serious problem, and they want their Government to begin to function. If I sense their mood at all, they are tired of the vacillation, the on-again off-again, the here and there policies or nonpolicies with which they have been presented. They want to know the facts, and they want to respond.

Last week, Chairman Burns of the Federal Reserve Board testified that the administration has prepared fair and equitable contingency plans that could be enacted if the voluntary conservation measures fail. When asked why these ideas had not been fully discussed in public, he replied; "I think if the Congress started hearings on the subject, they would have to be discussed." Mr. Secretary, that is just the opportunity that we want to provide to you today.

Mr. Secretary, you may proceed as you see fit.

#### **STATEMENT OF HON. ROGERS C. B. MORTON, SECRETARY OF THE INTERIOR**

Secretary MORTON. Thank you very much, Mr. Chairman.

I can either proceed in one of two ways. I have a prepared text of testimony, and it goes several pages. I don't have the same type copy that you have, but I believe it is 11 pages long. I can either read that, or if you are familiar with what it says, I would be very glad to move right into the questions in any way you would like me to proceed.

Representative MOORHEAD. Since it isn't that long, why don't you read it, eliminating those areas that don't need to be highlighted.

Secretary MORTON. Thank you, sir.

I appreciate the opportunity to appear before this committee on our Nation's energy policy with particular reference to the conservation of energy.

Until the oil embargo last winter, relatively few Americans recognized that availability of energy was a serious problem in this country. The appearance of gas lines and sharp increases in the price of fuels, have brought home to us all the crucial links between energy and our

economy and way of life. The embargo not only alerted the American people as to the extent of our energy problem, but had a significant economic and social impact on the Nation. It is estimated that the embargo resulted in a \$20 billion drop in GNP and in unemployment of a half million people.

As you know, domestic energy demand in the last decade has been growing at a far greater rate than our ability to produce energy. In 1950, the United States was considered self-sufficient in energy, but the situation has deteriorated considerably since that time. In the record from 1950 to 1970, our energy growth rate has been approximately 4 to 5 percent per year, while production rates have been stabilizing and in some cases, declining. Coal production, for example, is still at the level that it was in the 1940's and, in fact, even less than it was in the 1920's. Crude oil production has been declining since 1970 and will probably continue to for the next few years. Natural gas consumption has also been exceeding the rate of new discoveries since the late 1960's. As a result, by 1973, our dependence on foreign oil had grown to over one-third of domestic petroleum consumption.

As the committee is aware, the Federal Energy Administration has recently released a study, or "blueprint," on Project Independence. It is an analysis of the options we have to consider in order to achieve a balance of the supply and demand for domestic sources of energy with an acceptable low level of reliance on foreign energy sources.

Currently, the Energy Resources Council is working with other Federal agencies to outline and coordinate a series of specific energy policy objectives for the United States and a number of detailed proposals designated to improve our short- and long-term energy situation. The ERC will develop a cohesive energy policy package. It will analyze not only the energy implications of the various proposals, but their economic, social, and environmental impacts as well, determining the feasibility of each prior to the end of this year. The proposals will concentrate on measures to increase domestic energy supply, reduce demand through conservation, and reduce vulnerability to supply cutoffs. They will form the basis for an energy policy statement by the President when the next session of Congress begins.

Your invitation for me to appear before the committee today indicated particular concern for energy conservation, and it is certainly a major concern of mine. The vast majority of our energy is produced from nonrenewable resources. To the extent that their availability is limited, the fact that we must now purchase fuels abroad at arbitrary prices in an artificial market presents an extremely serious situation.

During the first 9 months of this year, our petroleum imports cost \$13 billion more than last year.

Both from the standpoint of wise use of our resources and protecting the energy and economic security of the Nation, conservation is essential. To conserve is to prove we mean business—to force a cut in the price—and to once again assume a posture of security. The question is how—and how much.

At 1973 energy growth rates of consumption and waste—that is, 4 percent to 5 percent per year—demand would double in 15 years. By cutting that growth rate to 2 percent per year—still growing—we need suffer no decline in our standard of living. And at this rate we can still keep our gross national product on an upward curve of 3½ percent

by increasing efficiency at 1½ percent per year, drawing upon that full third of our energy consumption which is waste.

Savings opportunities are striking. Some of our most energy-intensive companies have already generated savings of 25 to 30 percent.

In Government, we have saved 15 percent to 30 percent in each building by simply reducing lighting and adjusting thermostats.

If every automobile owner saved just 1 gallon per week, we would save 325,000 barrels of oil a day, or one-third of President Ford's goal, a million barrels a day.

There are five main areas where significant savings opportunities exist:

- Increased auto fuel economy;
  - Decreased total miles driven;
  - Increased industrial efficiency;
  - Reduced lighting, heating, and air-conditioning;
  - Reduced fuel requirements for electrical generation.
- Let me take these now in order.

#### INCREASED AUTO FUEL ECONOMY

In 1972, the American motor car consumed 28 percent, or nearly one-third of the total petroleum used in that year. That was 4.4 million barrels per day. If the price of imported crude oil averages \$7 per barrel in 1985, automobiles will require 6.6 million barrels per day.

Apart from price changes, there are only two ways to reduce demand in this sector:

One way is to decrease the total vehicular miles traveled annually—cut down on driving.

The second is to increase the average fuel efficiency in the total fleet of operating automobiles.

The President has asked the automobile manufacturers for a 40-percent increase in fuel economy by 1979. If satisfactory arrangements are not worked out with automakers to achieve this goal, then we expect to design and support federally mandated efficiency standards on all new cars to guarantee the increase in efficiency. Fuel economy standards could increase average fuel economy for new cars from 13.5 miles per gallon in 1972 to 20 miles per gallon in the early 1980's. Overall this would mean an average fuel economy for all cars on the road of 18 miles per gallon in 1985 and a 33-percent increase in efficiency over 1972.

#### DECREASED TOTAL MILES DRIVEN

To lower the miles driven by Americans significantly means we will have to provide superior alternative forms of transportation or make driving less attractive or both. There is no simple way of doing this, but it must be done because in the short run, this area represents the single greatest opportunity to decisively reduce imports.

Here are the alternatives, as I see them:

We will do everything we can to obtain voluntary cooperation from the public.

If I could deviate a little bit and say at this point we have actually decreased the consumption of gasoline by 3 percent from the 1973 level—but if that doesn't work, we can:

Increase the price of gasoline through a petroleum surcharge or conservation fee or gasoline tax.

Ration by inconvenience, through self-imposed embargo, or by coupon, through mandatory allocation.

These last alternatives are complex. They present serious problems, some of which are only now being projected and isolated through rigorous analysis.

There is strong evidence that increases in gasoline price immediately and directly affect consumption of gasoline, or any other commodity, for that matter. For instance:

A 10-cent price increase will reduce demand by 3 percent the first year and 10 percent by the fifth year;

A 30-cent price increase will bring a demand reduction of 8 percent in the first year. That is 530,000 barrels of oil per day and will increase in subsequent years.

Because of the regressive features of such a tax, however, it involves difficulties of its own. Some form of rebate might be necessary to avoid any severe restriction placed upon those least able to afford increased cost and eliminate the inflationary impact.

Alternatively, rationing would result in an immediate reduction of demand to whatever level we designed into the system. But rationing guarantees a costly, staggering bureaucracy, and less than equitable distribution.

A full review of these and other alternatives makes it clear that the factors determining our choices are complex. The choices we make will cut across the entire fabric of our way of life. Weighing the pertinent economic, social, environmental and other factors is not easy and we had better all be aware of what we are getting into. But certainly some positive steps can be taken. A look at other economies which can compare to our own illustrates this.

West Germany, for example, consumes 20 percent of the gasoline per capita that we do and gasoline is \$1.24 per gallon, of which 75 cents is a tax. Per capita income in West Germany is within \$100 of that in America.

#### INCREASED INDUSTRIAL ENERGY EFFICIENCY

Industrial end-use energy consumption accounted for 43 percent of the total energy consumed in this country in 1972. Seventy-five percent of this is consumed by six industries:

Chemicals, primary metals, petroleum refining, paper, stone, clay and glass, food and kindred products.

We are continuing an intensive dialog with top management of these industries. They are developing their own savings targets.

I would like to digress to say the Department of Commerce has done a superior job and we have received a 7-percent reduction and we hope to be 15 percent before the end of next year.

We and industry are establishing a monitoring and reporting system designed to evaluate results.

We expect fuel savings of 15 to 20 percent in this sector by 1980 and this would amount to 2.5 million barrels per day.

Again, voluntary compliance may peak in this sector or compliance may be inadequate. We could then make the reporting system man-



datory, but the diversity of industrial operations and processes, even within individual companies probably precludes promulgation of standards.

#### REDUCED FUEL REQUIREMENTS FOR ELECTRICAL GENERATION

Demand for electricity in America has grown at a rate of 7 percent per year and electrical generation wastes more energy than any other sector from inefficiency. Because of peaks and valleys in daily and seasonal demand, utilities operate at 51 percent of capacity. Generation and transmission losses amount to two-thirds of the total energy used by utilities.

Savings opportunities are, therefore, sizable. They can be achieved in three ways:

Reducing demand for electricity at the point of use through conservation measures I have already discussed and through restructured rate schedules;

Leveling utility peakloads, thereby increasing capacity and perhaps even obviating the need for expansion; and increasing conversion and transmission efficiency.

But this is easier said than done. We are 2 research years away from a point where we can support proposals in these last two areas with hard, solid facts.

#### REDUCED LIGHTING, HEATING, AND AIR-CONDITIONING

One-third of all energy used in the United States is consumed in residential, commercial, public, and industrial buildings.

We have recently asked the American people for a voluntary reduction of 25 percent in energy used for lighting, heating, cooling, and operating such buildings. The potential savings are:

Eighty billion kilowatt hours of electricity by November 1975, enough to supply New York City, Philadelphia and Detroit; \$1.3 billion to end users; and 380,000 barrels of oil per day, roughly.

That is a good voluntary program if it succeeds. It will require a prudent set of illumination standards, thermostat settings, and operating and custodial practices.

If this program falls short of the mark, we may have to consider standards. We should, again, all recognize that setting lighting heating and air conditioning standards involve real difficulties.

Thirteen thousand jurisdictions in America set building codes all of which are different. Education of the American public can be a great help. If more Americans were aware that the cost of home insulation can be paid for from the fuel bill savings in 2 or 3 years, we would expect significant improvement in this area. Some 18 million homes are inadequately insulated. They use 300,000 barrels of oil equivalent per day, or 110 million barrels of oil equivalent per year.

At \$200 each, it would cost \$3.6 billion to insulate them, the same as it costs to import 1 million barrels of oil a day for 1 year. So even if the Government paid to have them retrofitted with adequate insulation, we would pay back the economy in 3 years by spending that money at home.

These are some of the relevant considerations that bear on the choices we will be making in deciding what Federal action is desirable.

As indicated earlier, consideration of energy conservation will be part of the comprehensive policy the President will put before the new Congress:

As we face the difficult energy policy choices that lie ahead, reasonable men will differ on which choices best serve the national interest. I am firmly committed to seeking full public participation in the decisions that we must make. Particularly, I expect to be meeting regularly with appropriate congressional groups to insure an open dialog about the best approaches to America's energy future.

The development of a national energy policy has gone through several cycles in the preceding months and years. Organizations, ideas, and people have changed. But with the Project Independence analysis completed and with a determination to develop a comprehensive policy, we are now moving in the right direction and I am convinced that we will put the Nation on the course to a desirable energy future.

I would be very happy, Mr. Chairman, to discuss any part of this in detail and answer any questions you have.

Representative MOORHEAD. Thank you very much, Mr. Secretary.

I realize that you are under some constraints because the President will announce his proposal next year, but I think it would be helpful, recognizing that the opinions you give would be your own and not the administration's official position, for us to discuss some of these alternatives. There isn't much disagreement that we need to find, in the long run, additional sources of energy through research and development. The establishment of ERDA, unanimously agreed on by the administration and Congress, will make a contribution.

But we still have problems with the short term. As you point out, automobile consumption of gasoline constitutes almost one-third of the petroleum usage of the country. You mention in your testimony the possibility of a gasoline tax or rationing. Yet you don't mention something that Chairman Burns mentioned as a possibility for consideration, an oil import tax. Have you ruled that out completely?

Secretary MORRISON. Certainly not.

Let me outline just for a second, Mr. Chairman, the nature of the kind of energy crisis that we are in, and then see how each one of these alternatives applies to that situation.

In the first place, we are in a crisis of price as far as petroleum is concerned. Petroleum stocks at this particular point in time are high. Oil can be purchased, though from insecure sources, in my opinion, and at the outrageously high price, in my opinion, but it can be purchased from a good many suppliers; therefore, we are not in a supply crisis as far as petroleum is concerned at this moment in time. If political situations build up again in the Middle East which resulted in an embargo, we could immediately be thrown into a supply crisis again, though we do not depend on all our imported oil from the Middle East, which I think is a fact that we should all understand.

We do have a very serious supply problem in the natural gas area. I anticipate if the cold weather hits us this winter, we will have as much as a 10-percent shortage of natural gas. This shortage will show up in a very insidious and difficult way, because the first people to be affected will be the jobholders and those companies and industries which are on interruptible contracts.

So what we have in short is a price and political crisis as far as oil is concerned and a supply crisis as far as natural gas is concerned.

Now, let's take the alternatives for lowering the demand. That is what we are talking about, demand management. All of us do agree and we stipulate that we should do everything to increase our domestic supplies and get ourselves, for the long term, in much better shape than we are today. But today we are dealing with the demand side. We must decrease the demand or conserve energy. Across-the-board import tax, using that method of raising the price, and that is what the tariff or import tax would do, I think would have more of a detrimental effect on the economy because it would raise the prices of all aspects of petroleum. It would raise the price of residual oil which in turn would raise the price of electricity. It would raise the price of feed stocks which in turn would raise the price of all synthetic fibers and products that are made from petroleum. It would raise the price of heating oil and transportation fuel such as diesel for trucks and aviation fuel for our airlines industry. It would also raise the price of gasoline.

As we move toward a more efficient use in energy in industry we will reach a plateau, because obviously there is some point in industrial incremental consumption of energy that is minimal. If we use the import tax and do achieve that minimal point we will still then have an artificial price increase on everything that that industry puts out. I think this is inflationary and I don't think this is a price the consumer should pay for a judgment that should be made in industry. This is one of my problems with import tax.

Another problem with the import tax is this: we now have a two-tier price system for crude oil. Old oil is selling for \$5.25. New oil at about \$11, practically at the rate of imported oil. Now, if we put an import tax on imported oil we would have a three-price system, old oil at \$5, new domestic oil at \$10 or \$11, and say a \$2 tariff on imported oil, which would make it somewhere in the neighborhood of \$14. You will have great inequity in the inbound cost of our total refining system, and I don't see how any entitlement program will overcome that inequity. I think we will be putting some industries out of business and giving artificial advantage to other industries that happen to be located where there is a good deal of old oil available.

So the overall crude oil tax, whether it be a tariff on imported oil, whether it be a tariff or tax, has some disadvantages.

Representative MOORHEAD. There are particular disadvantages for the middle income or lower income family. They can reduce their consumption of gasoline for automobiles but it will be difficult to reduce heating oil consumption. This is a harder savings to achieve.

Secretary MORTON. It certainly is, and not only that, Mr. Chairman, it limits the opportunity for choice. Let us try, as much as we possibly can, to let the consumer assume as much of the burden of making the choice of how he spends his energy dollar. Let's don't take any more freedoms away from people than we have to.

You see, this is what we would be doing if we put an overall tax on crude oil or if we put a tariff on imported oil, we would be limiting the choice, because this additional price would be reflected all the way; whereas a gasoline tax on that one item would give the consumer an opportunity to spend his money somewhere else if he thought gasoline

was too high, and it would be pretty high if you put a tax on gasoline, obviously, he would have an opportunity to do something else with his money, not at an inflated price. Therefore, I think that a gasoline tax might be better than a tariff, but you then have to be concerned about what you do with the tax and how you take care of those people who must buy a certain amount of gasoline in order to meet their struggle for existence and get the work done. That has a lot of problems.

Representative MOORHEAD: Can I assume from your statement about freedom that you personally prefer the gasoline tax to gasoline rationing, so the Government isn't making the choice as to how much gasoline you or I can use?

Secretary MORTON: No, I think what I am saying is that I think the tax might be better for the individual consumer than an import tariff. Those are two comparisons I am making. The import tariff, I think, will create horrendous administrative problems and great inequities in the industry which in themselves will have an inflationary effect; whereas, the gasoline tax undoubtedly will lower the actual consumption of gasoline, but it also will have a minimal effect on those other parts of the economy over which the consumer has no control.

So I think the gasoline tax—I am not saying it will do the job. But the gasoline tax has some advantages over import tariffs.

Representative MOORHEAD: You make a very persuasive case against the import tax.

Secretary MORTON: I am not sure it is persuasive enough.

Representative MOORHEAD: I would now like to discuss the merits of a gasoline tax and gasoline rationing, again, with the understanding, Mr. Secretary, that I am not trying to get you to announce the administration's position.

Secretary MORTON: No, I am very anxious to discuss these things because I think there are some differences of opinion and we will have to find—and certainly I don't have all the answers yet. We are searching for the answers and they are very difficult to come by.

Let us talk about rationing in the terms of a self-imposed embargo. To ration, you have to start at the port. We would arbitrarily have to control the number of barrels of petroleum that were coming into the country. That is the first step. The second step, then, we would have to allocate the supplies of petroleum to the various regions of the country and sectors of the economy in order to keep the economy going and in order to be fair with people across the board. But this would be a self-imposed embargo.

The next step to make that work would be consumer rationing. Now, consumer rationing can be done two ways. By inconvenience, that is how it was done during the recent embargo. Nobody liked that and I don't think it is fair. Or it can be done by coupon system. Those are just about the two alternatives you have to carry out a rationing program.

But to make it effective and to actually reduce our dependency on foreign oil you have to have import controls, allocations so that the petroleum that is available permeates the entire economy with the least detrimental danger and finally consumer rationing.

Now, you can have consumer rationing for gasoline and for other petroleum products, such as heating oil, such as diesel fuel. But again, diesel fuel is so much a part of the economy, so much a part of

agriculture, so much a part of our transportation system, that you have to be very sensitive to the economic recoil or depressing effect that you would get from diesel fuel rationing and what you really come down to, then, is the rationing of gasoline. This has an effect, I think, that probably would be equal to the effect that you would get from a substantial gas tax.

Whether the country would be better served by a rationing program or a tax program is, I think, yet to be determined. One of the key factors in that determination would be what the Congress would decide to do with that tax. If you took that tax out and you put it into research or into development of energy but left it out of the economy for any prolonged period of time or put it into the general funds of the Treasury I think it would have a very serious depressing effect on the economy. If, by some miracle, you can work out an equitable redistribution of that tax back into society on a rather rapid basis so that the individual would have the incentive to reduce his gasoline, but also the purchasing power was restored that he lost by paying the tax in an equitable way, the economy could be well served. This is, as you can well imagine with the great legislative experience you have, a very, very difficult proposition to work out.

The rationing system relieves you of that horrendous tax in which there are bound to be some inequities. But as you and I both know, having lived through the experience of rationing during World War II, we saw a substantial black market developing in this country and I don't think that is for the well-being of our society either.

I would give anything to be able to say this today as a much better system than that. Both have some advantages, both have some disadvantages.

Let me say this in conclusion, that neither one of these programs will be acceptable to the American people until after they have a thorough understanding of the nature of our energy situation and realize what the long-term effects are and long-term risks are of our high dependency on foreign supplies.

Representative MOORHEAD. Would it be fair to say, Mr. Secretary, that if an equitable and prompt rebate system could be worked out, that you would lean in that direction rather than in favor of rationing?

Secretary MORTON. I believe, and I am exploring this today, Congressman Moorhead, that there is a middle ground of using a combination of things. I think that it might be possible, and we are trying to staff this up now, to limit imports to a certain level, tax fuel at a certain level, and also allocate and probably in some form ration without having to go all out for one system or the other and have less detrimental effects on the economy and still give a reasonable amount of choice to the individual.

One of the problems with rationing is—you have got to assume that everybody goes about the same number of miles. Somebody has to make a judgment for every exception that you have. You have got to judge your fellow man. You want to drive your car and your family to visit a national park, and enjoy a national park in the American way. You want to get in your car and you want to go. Now, if you have got to do that as an exception and go before a county or municipal board of your neighbors, you are asking an awful lot of judgment from people over the destiny of other people's lives.

If we could some way strip the waste out, strip the unnecessary driving out and have rationing overhanging the proposition so that people would be motivated to cut out the unnecessary driving, and we could show the rest of the world that we really meant business by putting a cap on imports and that cap steadily pressuring oil off our shores that we are buying, we might come up with a system that is a combination of both and better than either alone.

I wish it was easy. I wish we could say here is a piece of apple pie, here is a piece of cherry pie, which do you want and, if we could, you and I could go out bird shooting this afternoon, but I don't think that is how it is.

Representative MOORHEAD. No, I don't think either piece of pie is very tasty. The choices that we are offering to the people are all a very painful bite of medicine.

What would be the import of rationing or a gasoline tax on the person who has to use his or her automobile to get to work?

Secretary MORTON. That is the point. This is the problem of either one, because what you are saying, the automobile is so many things to so many people. If it was like a shirt, everybody wears a shirt and it buttons in a certain way and you wear it to keep warm, but the automobile is a part of the economy in almost every respect. It permeates the whole way of life of America.

This is something else we ought to start thinking about. We have built an economy that is very, very largely based on the automobile. We have made massive investments in highways while we let the railroads languish. We have said that this is the way to go and we have done this on a nonrenewable finite resource the size of which we do not know, and that is petroleum. We don't know how much petroleum we have got. We have got some educated guesses. We don't know what the rest of the world is going to do and how long petroleum will be available to us, and yet we have built a tremendous part of our economy on this very resource that is limited and so much of which is unknown.

This disturbs me. I have been trying to get this over to the Congress since I came here in 1962. I have been an advocate of land use planning, and good land use planning will include the corridor system and working out of transportation systems and those concerns have fallen on deaf ears. I hope this energy situation will open the eyes of the American people for the need of developing alternatives within the infrastructure of our civilization that are far more rugged and durable than the ones we have built on these nonrenewable sources.

Representative MOORHEAD. Mr. Secretary, I agree with you entirely.

Secretary MORTON. Everybody agrees with me and nobody will do anything about it.

Representative MOORHEAD. We have had some action in the Congress finally on assistance to mass transit.

Secretary MORTON. A drop in the bucket.

Representative MOORHEAD. I agree, but at least it is a starting point. I think we are becoming aware, largely through the demise of our railroads in the Northeast, of the need for better transit. However, even with improved rapid transit and improved railroad transportation, there are still many jobs that require an automobile. I am thinking of the coal miner or construction worker who have to get to a job location that isn't and probably never will be served by public transportation.

Secretary MORTON: Let me add another factor to just put it in perspective. We have a very depressing situation facing us in Detroit. I don't know what the total layoffs of the industry plus the supplier and the allied industry are now, but I think very high. I think in the automobile industry alone something like 80,000. It is a very high figure and you don't know how to project that all the way back through the supply industry. There will be about 7½ million cars junked or taken out of the complete inventory this year. There will probably be more than 7½ million cars sold this year. What we are saying to ourselves is that the automobile industry cannot be healthy and profitable if the number of automobiles on this road, the American road, is not growing at some reasonable rate like 4 or 5 percent.

You compound that for 15 years you virtually double the supply of cars on the American highway. I wonder what Washington would look like with twice as many cars in it. We are just merely going along that way saying to ourselves that we must, in order to have people employed and in order to have this industry going we have got to increase the number of cars on the road by some 4 or 5 percent a year, and here on the other hand we are saying we have to conserve fuel and cut down the amount of emission that is going into the air. I wonder if anybody thought that the number of cars ought to remain stable for a few years and that might be the best thing we could do as far as fuel conservation and as far as the environment is concerned.

Representative MOORHEAD. Mr. Secretary, earlier in your testimony you talked about the difference between the natural gas situation where we have a supply problem and the oil situation, where it is not a supply problem. There has been a lot of talk about the deregulation of natural gas. How about oil? Is it safe to say that so far as old oil is concerned you see no need for deregulation?

Secretary MORTON. Not at this point in time, but the two-tier price system is having a detrimental effect. It is exercising some hardships, for example, regional hardships in one area and letting other areas off fairly lightly. New England is suffering, for example, and part of Florida is suffering because of the two-tier system and because old oil is not available everywhere. This equalization program we are putting into effect—actually on the first of January, we are now going through the administrative procedures in setting up—will have a good effect on it but it won't cure the problem.

Downstream I think we would be better off if we would deregulate the price of old oil, but I don't think that is in the cards for now. But if we don't do something about natural gas, the situation will get disastrous in 2 or 3 years.

Representative MOORHEAD. What is your thought on trying repeal of the depletion allowance to the deregulation of old oil?

Secretary MORTON. That makes sense. I think we ought to do that. The trouble is with the depletion allowance that has gotten to be kind of a political football and everybody regarded it as a tax loophole. The thing we want to make sure of, in an effort to close our so-called tax loopholes, is that we don't slow down the rate of investment into the development of new resources. Take for example, the Alaska pipeline, it will end up costing \$6 billion. Hopefully as much of that \$6 billion as possible can come from the cash flow of the industries involved in the pipeline. If they will have to go to the bank for it and they are having to, and if they have to go to the bond markets for it, they are

going to have to take out a lot of money that will be available to people to build homes and for business. They have a lot of credit. We are encouraging the bigger industries to go to the banks and the guy at the end of the line is the guy who is trying to buy a new home or build a new home and he can't get mortgage money.

Now, you are going to take a tremendous lot of money out of the resource industry when you cut off the depletion allowance. I would be for a windfall profits tax that in this strange market we are in to insure that no industry would get a windfall. I would like to see a plowback provision to make sure this cash flow goes back into the ground and not in the purchase of Montgomery Ward stock. I would hate to strip the resource industry of any of its capital at a time when it is in the most capital intensive time of its history, because all we are going to do is prolong the date when the individual homeowner can walk in and get a mortgage for his home or build a new home if we do that. You are talking about billions of dollars.

Representative MOORHEAD. We are talking about billions. The deregulation of old oil would mean \$10 billion to the oil companies and \$3 billion would be taken back by the repeal of depletion. It doesn't sound like a very good deal for the consumers.

Secretary MORTON. I am concerned about this profits situation. The businessman has to make about a 15-percent return on assets or he won't be able to update his technology. He will have to be bailed out or be subsidized with Federal funds. Whenever you do this the consumer loses money on the deal. The only thing I want to do is make sure nobody gets a bunch of profits from the writeup of inventory when the oil prices change and the other thing is that the cash flow is adequate to develop these resources in time to bring on new supplies so the consumer will have plenty of oil and gasoline.

Representative MOORHEAD. Mr. Secretary, Mr. Sawhill was before this committee and testified that we were no better prepared for an embargo this year than we were the last time it was employed; do you agree with that?

Secretary MORTON. I think he was referring to oil in storage to meet such an embargo, but we certainly are prepared as far as allocations are concerned. We have a field force that has been trained now and has had experience. We are not babies in the woods as far as allocation is concerned. I think the Federal Energy Administration has brought on some people and they have gotten experience, but as far as having oil stored in some facility that we could substitute by oil loss on embargo, he is correct.

Representative MOORHEAD. One of the limitations on the additional expansion of production of petroleum is the backlog of orders on drilling equipment, pipelines and so forth. This can't be helped by additional revenues for the oil companies, can it?

Secretary MORTON. This situation is easy. Of course, the automobile reduction in the use of steel has eased the situation a great deal. We have one area that gives us great problems, and that is the area of floating rigs and platforms. These are built primarily in shipyards and they require special skills.

As far as oil country goods, tubing, drilling equipment, and producing equipment that is used on land, I think we are over that hump and I don't feel it is going to be a restrictive force. I think with some limited use of the Defense Production Act we can overcome the problem that we have as far as rigs are concerned.



Now, most of the rigs that are being built now and finished now are built on old contracts, contracts that are entered into for equipment to go in to other parts of the world. I think we have about cleaned that up now, and hopefully through some reform of our tax structure, and again through removal of the foreign depletion allowance, which I am for, we will bring the oil companies home:

The other aspect that is helping us in that direction is the fact that the Arab countries have decided to take over the oil companies, and obviously that will have a tendency for them to come back here. But we have for a long period of time made it almost essential for the oil companies to go abroad in order to make a reasonable return on investment.

I would like to point out that on the Outer Continental Shelf, where we have been producing oil and gas for 20 years, nobody has made money. Sixty-five percent of all revenues have gone to either State or Federal government. That has been an aspect within the oil industry which has not been a problem. This is one of the factors, of course, in trying to encourage the development in this area which really is the frontier of our opportunity for additional supply.

Representative MOORHEAD. That really brings me to my next question, Mr. Secretary.

Could you describe the current status of the 10 million acres of offshore oil leases. This program seems to be on-again, off-again, et cetera.

Secretary MORTON. No; it is not off-again, on-again, at all. I can explain very simply.

Prior to the time I became Secretary of the Interior we had been leasing at the start about a million acres a year. We were producing, at the time I came in, somewhat less than a million barrels a day from the Outer Continental Shelf. A review of the geology would indicate that the opportunity for additional oil in any substantial amounts available to the United States existed in two areas, one in the Outer Continental Shelf and the other in the on-land in the Arctic in Alaska. Discoveries were made, as you know, in Alaska and the Alaska discovery and subsequent development of the pipeline are now history.

We go through a very elaborate procedure, administrative procedure in the management of these lands. It is a joint effort between two major bureaus in the Department of the Interior, that of the Geological Survey and the Bureau of Land Management. We went from 1 million acres to 3 million acres, which created quite a strain on the administrative procedures. We found that in going to 3 million acres from a 1 million acre annual exposure of the public lands in the marine environment that we were having great difficulty in complying with all the requirements of NEPA, the development of our environmental impact statement, the collection of the base data, interpretation of the analysis of that data and the decisionmaking process which finally led up to a given sale of a given tract of land.

In order to institutionalize the Department, in order to really equip us to expand in this area we set a target goal of 10 million acres a year, and this was enunciated by the President. We institutionalized ourselves to comply with that to a large extent. I don't think we have reached that goal yet. But we have vastly accelerated the number of acres that we are going to expose for possible sale in the Gulf of Mexico.

Now we are attempting to put together the environmental impact statements that are required for a programmatic approach to the other frontier areas, namely, southern California, the Gulf of Alaska, other areas in Alaska and in the Atlantic.

We will not reach a 10-million-acre goal if these frontier areas are a large part of the action because we want to make those sales selective in order to find out where the oil is, if it is there and where it is not.

If oil is discovered in one of these frontier areas we are then institutionally equipped to expand that discovery and bring development of that field or that resource for the American people in a relatively short time. So we now have a capability of actually leasing something in the area of 9 or 10 million acres a year, but there is no point now in putting a figure on the acres that we are going to attempt to lease if the decision is made to go that way after viewing the environmental impact statements, but what we should do is be highly selective in these first sales to try to determine where the oil is and where the oil is not.

Representative MOORHEAD. Will these sales or leases be on a competitive basis?

Secretary MORTON. Oh, yes, they are all put up for bid, as you know. We are actually trying an experimental sale, on a royalty basis. It has some disadvantages, we haven't fully evaluated it yet. There are a lot of people concerned about the bonus bid basis that we have used. We have tried to design alternatives, but we feel that the best interest of the country is served and protected by the bonus system although we have sold a few tracts on the royalty system. We will be able to present that to the Interior Committees of the Congress so we will be able to have a look at it.

Representative MOORHEAD. How about the on-land sales and leases, are they competitive?

Secretary MORTON. They are competitive on the public land on the Leasing Act of 1920, but on the private land, those are individual deals between the landowner and the oil producer.

Representative MOORHEAD. I was referring to public lands.

Secretary MORTON. Yes, they are competitive.

Unfortunately, on land the oil prospects don't look too encouraging.

Representative MOORHEAD. Now, how about the use of coal, Mr. Secretary. What problems do you have there? What are the tradeoffs of eastern versus western coal development, the costs of transportation, and so on?

Secretary MORTON. Well, of course, coal for many years has been fraught with problems. Coming from Pittsburgh, far be it from me to describe those problems to you, but I am sure you are familiar with the long labor management history in the coal industry. I am sure you are familiar with the environmental problems that coal has always presented to us, the transportation problems that coal has had.

We are now producing coal at a rate of about 600 million tons a year and that coal is divided into two categories, as you know, metallurgical coal which represents about 15 percent of it and heating coal or thermal coal, which is the rest of it, and that is primarily used by the utility industry with some being used by other industry and a little bit being used by the individual consumer.

The opportunity for coal depends entirely upon the systems that we develop for the utilization of coal. Coal is demand limited, it is systems limited.

We feel that the center of gravity of the energy mission between now and 1985 and now and the end of the century should move and must move toward coal from the more precious fuels of natural gas and oil because we have an abundance of coal.

We shouldn't have a situation in which you have I's versus we's or really a situation which you should have surface mining versus underground mining. We can work out a coal policy, and I think we can, which is environmentally sound.

We will know a little more about that when we review the bill passed out of Congress on strip mining, and if we can solve the environmental problems by buying a little time through the proposed Clean Air Act amendments, there is no reason why we can't in a very orderly way begin to convert some of our electric power from oil to coal.

Now, there is one other thing that I would add, and I think it offers us great hope for the future. We have going in the largest research effort that has ever been undertaken by the Federal Government, researching on energy at a rate of about \$10 billion over a 5-year period, \$2 billion a year, a large part of that for the development of clean fuels from coal through further processing. This is beginning to move along well. We have a \$400 million request for a proposal for a joint effort between independent industry and Government to develop a demonstration size industry for the conservation of coal into clean fuels. I think this is a very, very good way for us to invest our research dollar. The opportunities for pay out are tremendous.

So I feel that by 1985, if oil prices stay where they are (they have an influence on coal prices), that let's say from \$11 oil we would see the production of coal virtually double between now and 1985. This will probably continue in about the same ratio of surface mined coal to underground mined coal, with the exception that most of the western coal developed will be surface mined because it is near the surface and subject to surface mining.

Representative MOORHEAD. While we are on the subject of research and development, what about the prospects for using nuclear power to help solve our energy crisis?

Secretary MORTON. Nuclear power should come on the line in the 1980's very strongly. Today it is just past firewood. We are beginning to see some problems, though. That is becoming so cost intensive and the cash flow in the utility industry and the general credit of the utility industry is such we have had to slow down on the construction of nuclear generating plants. They have always been fraught with environmental problems and have been very difficult to site. As you know, the time it has taken, from the time it is conceived to get it on the line is a very, very long time, the best part of a decade.

I hope that the Congress, the regulatory agencies involved and ERDA will be able to simplify that process so that nuclear power will occupy at least a 20 to 25 percent position in the electric generated power field by certainly the end of the 1980's or by 1985. We are spending a tremendous number of our research dollars, as you know, in the development of the breeder reactor, which is a liquid, metal-cooled reactor. There have been some recent break throughs in the fusion area, which indicates it may be with us before originally thought. This means maybe we could have some power from fusion before the end of this century. But I think that that time schedule is pretty well fixed

by the facts of life, and I don't think we are going to see much speedup in the period between now and 1985.

Representative MOORHEAD. If fusion energy is closer, as you just testified, should we not be putting more of our dollars into that; in other words, skip a generation?

Secretary MORTON. Well, you have got the wrong man up here to talk about that because it is so highly scientific that I merely can understand the words, but if you will talk to the National Science Foundation people, and I think you should, I think they feel we are putting all of the research money into this area that we have a capability of using at this point in the state of art. Now, whether you should jump over a generation or not certainly a judgment that would have to be made with a great deal more technical and scientific background than I have.

I would agree with you, that if it is feasible let's do it. But on the other hand it may not be the best way to get from here to there and I think that judgment has to be made by the best scientific minds in this country.

Representative MOORHEAD. Are you familiar with the combination of laser technology and fusion which is used to create methane?

Secretary MORTON. I am, and I have been encouraging this methane operation. It is coming along, but there are an awful lot of problems. This is one I am fairly familiar with because I have gotten into it recently. It sounds good, but when you get into it and talk to the researcher and talk to the scientists on the front line of this technology you find you have a long way to go.

Representative MOORHEAD. If that were successful we could help alleviate the shortage of natural gas.

Secretary MORTON. There are a whole lot of attractive "if's" scattered around over the land. One sure way to get out of this thing is to conserve on land.

Representative MOORHEAD. In the short term?

Secretary MORTON. But we talk about the Manhattan project and why don't we mobilize in the way we did, the research in coal processing alone is much greater than the Manhattan project in terms of real dollars, and what is going on in private industry is tremendous.

The technology of the fluid bed combustion system, a method of mixing coal and limestone powdered in sort of a free flowing powder form that will burn cleanly, eliminate the environmental problems, and get the greatest amount of Btu out of the coal is moving along.

We are also developing a method of converting heat directly into electricity through magnet on hydrodynamics. This has some hope.

There is a tremendous amount of work being done across the board in energy, tidal forces and wind power, and the National Science Foundation is coordinating all the efforts nationwide in the development of solar energy and in certain types of energy uses. Solar energy is exceedingly attractive. Certainly it is moving along well.

Geothermal is one we haven't mentioned, and geothermal opportunities, particularly in the West, are there. We have made public lands available issuing permits for prospecting for geothermal sources. We have some experiences. Forty percent of the electricity serving San Francisco comes from geothermal steam from out of the earth. There is a lot of technology there. We have some environmental difficulties and we are trying to overcome them. This is a resource, tapping the heat of the earth.

Representative MOORHEAD. I want to conclude soon because I know you have other things to do, but could you give us a little discussion of the oil shale program? I have heard about the Colony project. I wonder what technical or economic problems you have there?

Secretary MORTON. Number one, oil shale is abundant. There is a great deal of hydrocarbon locked up in oil shale. It is there. Any development of a process that reduces oil shale to oil is very capital intensive. What we are attempting to do is to develop a demonstration size industry. I think we have enough pilot plant knowledge to move with this. We selected six tracts in varying qualities, sizes and shapes in the West, two in Utah, two in Wyoming and two in Colorado. The two in Utah and Colorado were bought at public auction and we didn't get any bids on the two in Wyoming. Now it is a matter of price. We put diligence clauses in those leases so that they can't buy those leases and sit on them. They have to do something within 5 years or turn them back to the Government. I anticipate there will be enough investment money available for the development to move forward on these four tracts.

Now, the Colony project involved private land, and it also had other problems. I think what they are waiting to do, as I understand it, and I talked with Hollis Dole, former Assistant Secretary of Interior and who now works for ARCO about this, and he said though they had temporarily sidetracked it because of the costs and economic difficulties, it is still on the back burner. I think what they are waiting for is to see what we do in Government to insure some kind of an investment climate.

I proposed to President Nixon and to OMB and to other people and discussed this with Members of Congress the proposition of guaranteeing a price or guaranteeing to buy the unsold portion of production of oil shale in the demonstration unit in order to give them some official security on which they could borrow the money to do the job. We have not seen fit to do that yet, but this may be a way to go. If oil continued at its present prices, they won't need it. But there has been so much talk about oil prices coming down and breaking the cartel, and I guess before these people will put the hundreds of millions of dollars required they are going to reevaluate the risk of their investment. I think the incentive is there. The in situ process has advantages but also disadvantages, particularly because you get so little out of the total oil there.

My proposition is we will have a proposition before us, a mining plan, if you will, within another year, and we will then be able to make a determination as to whether any subsidies are needed from the Government.

There are two difficulties. One is the social and environmental difficulty that the people in Colorado do not want that oil developed, the risk of the environmental impact. Another is water. There are a lot of people who think they can put water to higher use. They don't want so much of their precious water developed.

We have undertaken a rather massive study entitled "Water for Energy" which does try to qualify and quantify the water needed in the arid West.

The other impacts that are of great concern, particularly to the local people and to the States where oil shale development is likely

to take place, is the question of social impact, the number of people that we brought in, the new towns that would have to be formed and all the rest that is involved. That has thrown up a barrier to the enthusiasm for oil-shale development. I still believe that our demonstration industry will take place within the 5-year period we have outlined.

Representative MOORHEAD: Mr. Secretary, when I asked you about competitive leasing, I was referring to the energy policy project by the Ford Foundation. You are probably familiar with that report. On page 286, it says, "The fact that almost all Federal oil and gas resources on shore and most of the coal and uranium resources are leased under noncompetitive systems means that for all practical purposes, these resources are not sold; they are simply given away."

Do you want to comment on that?

Secretary MORTON: Most of the—if they are known geological sources, they are put up for bid, and they have not been given away. There has been—coal leases have virtually been sold for virtually nothing over the years. That has tightened up through time. The oil shale tract in Colorado sold for some \$200 million for some 5,000 acres. That is not a bad price.

I think we have a handle on that.

I don't quite understand what they are talking about, because if they are talking about oil that is—oil and gas that is on the public lands, it is now under the leasing law, the 1920 leasing law. Hard rock minerals are under the prospect law or the mining laws of 1932. I have tried in both cases to amend these laws ever since I have been in this job, to tighten this very thing up, to make it more difficult to come by these resources, but those amendments have been turned down continuously by the Congress.

Representative MOORHEAD: Let's refer again to your point about saving fuel by insulating houses. You mentioned an average of \$200 per house, in your testimony. Are you suggesting, sir, that we amend the housing bill or other legislation, authorizing the use of public money for private insulation costs?

Secretary MORTON: No, I think what we are doing is pointing this out as an example. I don't know whether you can do that or not. It is such a pervasive thing you would almost have to create a tremendous bureaucracy for this.

The way to go, I believe, is to see if we can't—maybe HUD is the agency to do this—see if we can't get some standardization of insulation. Cities have different codes, counties have different codes, and States have different codes, and so long as we have a situation that is so heterogeneous that we have, it is going to be very difficult to get a handle on this.

I understand, and I have been checking around that people like the storm window people are just absolutely swamped with orders. They are doing a land office business.

We have got a storm window manufacturer not far from my home over across the bay, and he has been going full tilt and is going full tilt and will be going full tilt for a long time to come based on the orders that he has.

I just don't know whether the subsidizing of retrofitting of insulation can be done. It may be through some sort of tax benefit for expenditures on their home that will result in energy conservation and effi-

ciency. I certainly would not be against that. I think that would be a good way to go. I don't know whether you can go out with a direct subsidy plan and have very much success with it or not. I don't know whether you can manage something as big as that or oversee something as big as that. It has to be done very skillfully, very carefully, and I would hope that we would have some incentive in this system, either a tax credit by being able to expense this or deferring the taxes on it in some way until the property is sold. I am not enough of a taxman to give you the details on how this should be done, but I certainly think this should create some incentive for old buildings now that are really oil consumers.

Representative MOORHEAD. On the matter of the building codes, the housing bill that we passed last year established a National Institute for Building Sciences. I don't think much has been done to activate that, but that is one of the purposes of that portion of the legislation.

Secretary MORTON. We have 60 big office buildings being built for the Federal Government around the country. Those 60 big office buildings are being built by private capital and leased to the Government.

There is one thing I hope is done by the Congress is they put a sign up on the wall that the \$200, \$300, or \$400 million to construct this building has been borrowed for the benefit of the Government and has been now denied to the individual homeowner for building his home and his mortgage.

I think this business of the Government going out here and long-term accounting for everyone of those 60 buildings is not designed for energy efficiency. They will have to be retrofitted after they are constructed, and they are not even constructed yet. I, just as a private citizen, if I can revert to that for a minute, think it is a crime for the Government to be going out here on a lease-lend basis competing in the private sector for the homeowners who are screaming for money to build homes for families.

Representative MOORHEAD. I certainly share your sentiment. The Housing Subcommittee is aware of the difficulties in the homebuilding industry; problems requiring money for acquisition.

Secretary MORTON. What people have to understand is monetary resources have diminished. You have so much in the cupboard. If you let Uncle Sam go in there and take the first four or five shelves off and then encourage industry by limiting their cash flow to have to go and borrow the rest of it, what is left. That is the problem. It is that simple. You don't have to have a Ph. D. from Harvard to understand that. I don't know why we do it. I have been against this proposition—we get all excited about going out here and building a new building in Denver or Omaha or San Francisco, a new Federal building, that is the thing. There are plenty of places around here. The Government doesn't always have to be housed in the biggest and tallest and most expensive building in the world. They are like everybody else. We have people in the Department of the Interior scattered all over town. I think most of them are warmer and toastier than us in the old Ickes Building.

Representative MOORHEAD. We have to control this.

Secretary MORTON. We have it controlled all right. You can make ice in two or three of our corridors.

Another thing to show you how efficient it is, if you get it right, up up where it is comfortable, there are about four or five areas that you have to air-condition to bring it down so they are not intolerably hot. I am not knocking GSA, but that is a fact. Let some guy build another building and we will guarantee Washington won't grow, nobody will be able to build a house.

Representative MOORHEAD. Mr. Secretary, I think we can conclude now. You have given us thorough testimony on the short-run problems that we face and an understandable discussion of the long-range solutions which are also important. I think the short-range problems are going to be the more difficult political decisions.

Secretary MORTON. Very difficult.

Representative MOORHEAD. But I don't think we can avoid them much longer. I am pleased that we have a timetable that the President will have his proposal early in the new Congress. This committee, after thorough study of proposals, can make a reasonable response. I hope we can work on a very cooperative basis.

Secretary MORTON. Oh, I think so, and this committee has a tremendous opportunity. The committee has a great record as being responsible and responsive. I think that more than any other body within this Congress, this committee will have a tremendous influence. I hope it will have a tremendous influence in keeping partisan politics or any of that type situation out. We have a problem and it is up to us all to find the best solution. We will be perfectly flexible, and if you have a better idea than we have, we will grab onto it and give you all the credit for it. I can tell you that.

Representative MOORHEAD. We do have environment, energy, and the economy all intertwined. A great many of those fall within your jurisdiction, too.

Secretary MORTON. We have plenty to do.

Representative MOORHEAD. Thank you.

The committee will now stand adjourned.

[Whereupon, at 11:45 a.m., the committee adjourned, subject to the call of the Chair.]