The Economic Club of New York

Robert V. Roosa
Partner, Brown Brothers
Harriman and Company

James L. Buckley
Senator, State of New York

March 14, 1973

Waldorf-Astoria
New York City

Introduction

Chairman George R. Vila

The timeliness of the two subjects that our speakers are prepared to discuss this evening. For a while I was afraid that the Senator wasn't going to show up and I was about to get up and announce it was no dice, when miraculously he appeared on my right, so we go right ahead.

Now I have a note here from the research department that reads, "Regarding Robert Victor Roosa, AB, MA, PhD, Doctorate of Science, LL.D., Phi Beta Kappa, etc., we have thoroughly researched sources available in this country, and abroad, but are unable to uncover any material for an anecdote to spice your introduction. Unfortunately, this Dr. Roosa appears to have done everything right, and to have stayed out of trouble all of his life. He lists his leisure interests as music, opera and reading and history, politics, and diplomacy. Further, his associations over the years have been utterly uncontroversial. University of Michigan before campus unrest, Harvard, MIT and Federal Reserve before Arthur Burns. The U.S. Treasury before John Connolly. Brown Brothers and the Economic Club of New York. I have a postscript here that says, perhaps the person you had in mind was Stuart Roosa the astronaut. We could dig up a lot of stuff on him. (Laughter) That is the end of the memo.

Well, I am very glad that Bob is a former President of our Club. All of you know him, and he doesn't need to be introduced to this audience. It is possible, though, that some of the audience is not aware how very much he is in the news today. Only a few days ago I read in the newspaper that foreign central banks acquired almost $5.6 billion of special nonmarketable issues during the first 15 days of February. Special nonmarketable issues, if my memory serves me right, is just jargon for Roosa Bonds. Something Bob invented some years back to keep foreign central banks from draining our gold supply. Roosa Bonds are better than gold because they carry interest. Thus, you might say, he is still very much a part of the solution to our international monetary problems. He is here tonight to give us the benefit of his knowledge and thoughts on the future monetary system and I might add, that he has had to write three speeches and the version he is delivering tonight, he constructed in the shower Monday morning, that is how fast this thing is changing. It is my pleasure, gentlemen, to introduce to you or to present to you, Dr. Robert Roosa, partner in the firm of Brown Brothers Harriman and Company and former Under Secretary of the Treasury as you all know. (Applause)

Robert V. Roosa

Partner, Brown Brothers Harriman and Company

Thanks very much George. He is just trying to assure you that I am talking about liquidity. I guess that is what much of the latest crises has been all about. But when Dwight was choosing a title for me tonight, he has chose, if you have seen the program, everybody's dollar and what to do about it. And when I really began to look at that title, I decided I would have to start by making a definition because there are quite a few different things I could think of doing with a dollar that wouldn't really be the occasion for this evening's entertainment.

So what I am going to be discussing with you is the international role of the dollar and the international monetary system for which the dollar has long been the principle currency. And that is the sense in which our dollar has become everyone's dollar. But there has been an innuendo in a lot of the comment over the last weekend, to suggest that much of the world is now going to try to get along without the dollar. And though I don't expect that the fact is going to correspond with that innuendo, it is nonetheless true. That the dollar, as an international currency is passing through a critical transition. And that it does need some lightening of the tasks that it has been expected to perform. And it is that, that I want to talk about tonight.

Never before in world economic history has a single currency fulfilled at one time all of the three functions which the dollar has been performing since the decade of the 50's. For one, it has been the world's principle transactions currency, and as such, it has been a common denominator in the foreign exchange markets, among almost all other currencies.

Second, it has been the principle reserve currency, used almost exclusively by central banks when intervening in the market to control the actual exchange rate at which each currency trades against the other.

And it has third, been the principle currency serving an extraterritorial market, outside the direct control of any individual domestic economy government or central bank. An extraterritorial market for short and long-term credit, the euro dollar, market for money in capital which brings together the suppliers of savings and the users of them across national frontiers; effectively linking the individual money or capital markets of other countries on a scale that had previously been inconceivable.

What has now happened as the world economy has flourished over the past few years, beyond all previous expectation, and in part because of the transnational monetary usefulness of the dollar, what has happened is that the scale of all three of these functions, when taken together, has grown beyond the capacity of any single nation to support. None of us should have been surprised that such a stage would be reached at some time, and yet, most of us seem to be bewildered when its impact suddenly descends upon us.

To be sure the monetary authorities of most of the leading countries have been trying to prepare for this inevitable eventuality through a series of negotiations and innovations for more than a decade. But even they, up to almost this very moment, have been overwhelmed by the swift pace at which growth and change have overtaken their deliberations. I expect and earnestly hope that the results to emerge next Monday once the current series of emergency meetings has been concluded, will restore a new sense of equilibrium by limiting somewhat the world's dependence on the dollar; in varying degrees for each of its three great functions.

That should in turn provide ample time for the further study and negotiation that can, spurred now by a quickened sense of urgency, produce over the coming months or years, a comprehensive reordering of the monetary system. This must be an effort, and a result, moreover, in which all countries, the large and the small, the more or the less developed, will fully participate. And I hope through the work of the Committee of 20, the International Monetary Fund which is to resume its deliberations in Washington next Tuesday.

Without presuming to forecast the outcome of all of the deliberations now underway, certainly without presuming to prescribe what that outcome ought to be, either for today's crisis or for long-term reform, I would like to try two things. First, a brief recap of what has just been happening in order to read some of the general implications for our economy and the dollar and the monetary system. And then second, to try a deeper probe into the nature of economic change in the world; to try to find some equally broad implications for the nature of long-term monetary reform.

Turning now to the recent experience and its shorter run implications, we are fortunate that all of the publishable details of the recent international monetary experience, for the six months ending right up through March 9th, have just been officially reported in the latest of those unique and remarkably useful semiannual analyses prepared by my old friend Charlie Coombs at the Fed of New York, who I think is really an unsung hero if there has ever been one. He has presided over currency operations for the United States in the international markets throughout the entire past

15 years of tumultuous and rapid change.

In essence, the story that his detailed record tells is that of the culmination of an intensifying strain on the dollar. A strain which had grown as the magnitude of the various uses of the dollar kept multiplying with the advance of the world economy.

Meanwhile, though a number of other countries had in fact, for several years, been growing more rapidly than we, none of them had developed either the capacity or the willingness to service on a substantial scale, any or all of the three international functions still filled almost exclusively by the dollar. Indeed with the world's needs for something like the dollar, so immense, and with no fully usable alternative in sight, there have been some, some here, some abroad, who I think misguidedly, perhaps even cravenly, have thought that the dollar had it made. That the world's need for dollars, gave the United States an unlimited license to pursue its domestic course; unmindful of outside constraints. Go on acquiring enterprises or properties abroad without limit, in the eyes of some foreigners only through the dispersal of depreciating Greenbacks.

However instead of permitting that kind of an international version of benign neglect, the widespread use of the dollar actually has made it more susceptible to massive reactions whenever the world's confidence in our own performance began to fail. That is what happened in the two crises of 1973.

The first, which culminated in the 10% U.S. devaluation announced on February 12th and the second, which came to a head with the closing of the markets on March 2nd, and is still with us.

The first shock leading to the devaluation in a sequence, oh you can trace it back further, but the first of the significant ones occurred on January 11th when the President unexpectedly announced the shift from Phase 2 to Phase 3 in the anti-inflationary program. I had an unforgettable personal experience that night, for the news reached me just a half hour before I began delivering a nice glowing optimistic talk before the Swiss financial analysts in Zurich. (Laughter) On the title, where is the dollar heading? (Laughter) It isn't exactly heartwarming to have to tell you that despite my improvised assurances that the new measures actually must represent a strengthening of the administration's anti-inflationary resolve; just a recognition, however, of a changing of framework that this had to be fitted into. Despite all of this eloquent persuasion, there was very soon such a deluge of dollars into the Swiss Franc that the Swiss authorities, most reluctantly had to set their exchange rate, free to float, on January 23rd and it is still floating.

To be sure, in addition to the fear that the United States had given up in the fight against inflation, and I am talking now about fears that prevail around the world. I am not trying to pass a value judgment myself, but to recognize as facts of important influence, states of mind for whatever their validity may be. But at any rate, in addition to the fear that the United States had given up in the fight against inflation, there had also been just at that time a release of some very discouraging figures about our own foreign trade balance. There had been a decision January 20th by Italy to establish a two-tier market for the lira, leaving the lira for financial transactions free to float. There had been some very favorable trade figures by Germany and Japan just published, and as we may all recall a kind of confusion, or rather a remarkable confusion of comments by some high financial officials in some various countries, leading to a charge, counter charge, withdrawal and clarifications that all contributed to a mounting conviction that the dollar must be slipping in value at home and abroad.

When the markets closed on Friday February 9th, it was clear that something would have to be done before they reopened. Of course at that time, I guessed that the wrong thing would be done. But at any rate, the results that were announced late on February 12th were spectacular enough, I believe, to have been decisive in settling the unrest of the markets. But the world had grown weary of exchange rate changes which the authorities apparently expected to work effectively, all by themselves; without the backup of supporting measures within the respective domestic economies. As seen from abroad, the United States, instead of reinforcing the impact of devaluation by strengthening its anti-inflationary effort, was widely publicizing a rollback of rising commercial bank interest rates. And as a further complication, the very announcement on February 12th of the devaluation also contained a gratuitous comment as seen from abroad to a commitment to remove all three of the United States controls over capital outflows by the end of next year. After a few days of the double take, world reaction set in. The fact of a second dollar devaluation within 14 months became an unnerving influence in itself. This time, the nature of the flight from the dollar was I believe significantly different from that preceding February 9th.

In the earlier episode there was little trace of the interest rate arbitrage that often plays a large part in major movements of funds. And the dominant force was that of business and banking firms prudently seeking to delay their payments or minimize their holdings in a weakening dollar, on one side. Or on the other, to meet or anticipate obligations coming due in the strengthening currencies.

But the late February episode had more of the character of sheer speculation. Money movements, specifically for the purpose of cashing in on a further relative rise in the exchange rates of the stronger currencies. A belated attempt to demonstrate an anti-inflationary posture here, as a kind of a counter weight, by raising the Federal Reserve discount rate on February 23, went in that atmosphere almost unnoticed. And in that atmosphere magnitudes could conceivably be mobilized for transfer from the extraterritorial dollar market and the euro dollar market, into such strong currencies as the (Dem) Mark and the guilder in magnitudes never before seen in the international money markets.

And on March 1, such moves occurred. $3.6 billion moved into the reserves of European central banks alone on that one day, not to mention Japan. With the result that most foreign exchange markets had to be officially closed on March 2nd and still are.

The response to this speculative rate when it comes must clearly be convincing and decisive. That is why the authorities are taking more than two weeks to work it out and that is why there should be, and I hope there will be, a readiness by the United States to participate actively in the foreign exchange markets in conjunction with other countries whenever joint action is agreed, to emphasize this country's full concurrence in the steps being taken to relieve some of the cumulative burden on the dollar.

At least equally important is going to be evidence of our own government's resolve to re-establish effective control over inflationary forces. And of a willingness to strengthen our capital controls for the time being, without, of course, giving up the ultimate objective of eliminating them when that can be done, in harmony with the actions of other countries.

It would be indelicate for me, at this time, even though my couple of decades of official responsibility ended a good many years ago. I think, indelicate to try to presume in the midst of these negotiations to prescribe the specific steps in any detail. But I can't resist noting with satisfaction that such evidence as the tightening of our own money markets, under the combined influence of rapid domestic expansion and the need to hold or attract funds here, from abroad. But price controls, wage restraint, budgetary discipline, are also all part of the package that can, by protecting the value of the dollar for all of us here at home, give holders abroad renewed confidence as well.

And despite the new element of flexibility introduced into other currencies, as announced over the past weekend, I think we are also going to have to resign ourselves for some time, to a reinforcement abroad of their exchange controls, which limits the flow of dollars into other currencies.

No matter how successful all of these efforts may be, in restoring everyone's faith in the dollar, the inescapable fact remains that some of the burdens the dollar has been carrying have to be shared more widely. And the great risk is, in this transition period, that we may enter an atmosphere of recrimination. There may be a deliberate splitting away on both sides, with the United States building protectionist barriers against others, and they against us.

Such an outcome, would, as it degenerated into an isolationist mentality, erode the underpinning of economic multilateralism that supports much of the world's hopes for sustained peace and for the greater well-being of everyone everywhere.

Fortunately, what seems to distinguish the negotiations now underway from many in the past, is a genuine recognition among all the participants without acrimony or the naming of scapegoats, that new multinational approaches must be found. The decision of the six common market countries to lock their currencies more firmly together, and on occasion to use each other's currencies for intervention to support the joint float of their own exchange rates in the market, can surely help. So long as the aim is supportive and cooperative with us, rather than combative.

Continuation and perhaps strengthening, at least temporarily, of the domestic controls, which a number of countries impose on access to the euro dollar market, will along with their other exchange controls, also reduce the potential for future strain, particularly if this latest experience impels them to develop a network for coordinating their controls.

But, a larger reordering to provide for effective consolidation or funding of any dollars which exceed the world's requirements today, and in terms of the overall reform to diminish reliance on the dollar as a reserve currency by enlarging an alternative for it, all of that in the longer run sense will presumably have to await the deliberations of the Committee of 20 and the Monetary Fund on longer term reforms. But, it is clear that all nations, can and must concentrate their efforts on these, once the current crisis wins and blown themselves out.

Turning now briefly to the longer run reforms. One of the reasons I doubt, that durable reform can be accomplished instantly, despite the clear urgency, is that I am afraid that none of us, and I include the representatives of various governments, have yet probed deeply enough into the interrelations between any comprehensive new approach on the monetary level and the nature of changes taking place in the underlying economic process.

Indeed, until we have taken a fresh look at the world economy as a whole, I doubt whether anyone can be reasonably sure which monetary arrangements can best serve or promote, rather than frustrate progress toward the further fulfilment of mankind's aspirations in all countries. Or be reasonably sure as to what a meaningful adjustment process can be. I don't want to digress too far into a lot of global philosophizing, but I do suggest, there is a need at least, to run through an exercise on the scale and even grandeur that is characterized by the work of the Club of Rome. I don't subscribe to their own quasi scientific formulations, but I do think there may be something in the club's idea, that the breakneck speed of recent economic change, the wide variations in the composition and the rate of that change among countries, the alarming impact of recent change on exhaustible natural resources, that these are leading the world toward a matrix in real terms of unsustainable, unstable economic relations among nations.

Certainly there are stirrings which suggest that various countries are noticing and reacting at least to various fragments of such an experience. These crop out in the irritation and contention over what adjustment should accomplish, or what the criteria and methods for balance of payment adjustment ought to be. They suggest that there is some deeper uneasiness about the nature of the economic process as it has evolved into today's world. It is evidenced by the groping on the part of this country for some parallel agreement on the conditions of trade, alongside any discussions of monetary reform.

It is evidenced by the readiness of some countries to take on another round of tariff and quota negotiations. By the new recognition and we are going to hear much more about this tonight, of an impending energy shortage and the balance of payments costs of importing oil or gas. It is indicated by the fascination and the concern with multinational corporations which bridge over many of the traditional barriers among countries in the search for a more economic utilization of resources. All these issues and efforts imply some partial recognition of an immense cauldron of change underneath the present surface of abounding prosperity in many of the more developed countries.

My question is whether without some more comprehensive reappraisal of the changing structure of the world economy, it will be possible to make sure footed progress toward a monetary reform, that can, with allowance for flexible adaptation serve the world well for another generation or longer.

For unless a way is found toward a more synchronized integration among the fast changing economies of most countries, any monetary system may be subject to repeated breakdowns. The trouble, as I see it, is that too often we shy away from the hard problems underneath. Hoping, at best, that some overlay of monetary arrangements will force the real sectors into some kind of workable alignment, or, at least that the monetary overlay will cover over the incongruities in the real sectors. Yet in practice the result may instead be that any lasting monetary reform will have to depend upon the development of agreed guidelines for international economic behavior. Something will be needed to replace the gyroscopic function which was formerly performed by the United States when our economy was so dominant that it could largely absorb or offset any transitional unevenness in the trade or capital flows among most other countries.

The mushrooming expansion and the number of transactions among nations as the scale of their economies has grown, and the enormous growth in capital flows, which now account incidentally and importantly, now account for a larger volume of the world's payments than do trade transactions. All of these changes have created new potentials and more impelling motives for massive shifts from one currency to another. These are to be sure the conditions of progress but they are also the conditions for a monetary crisis and they are such conditions, regardless of whether the world's currencies have established parodies, subject to disruptively large flows of reserves as we have recently seen, or whether the world has loosely flexible exchange rates that are subject to disruptively large fluctuations in the rates themselves that will throttle trade.

It is not enough to exalt flexibility as a word or a concept. That can mean many things, including the creation of a shooting gallery for mere speculation. To have a constructive flexibility, it will have to be developed within newly agreed rules of the road; to avoid, converting exchange rates into tools of degenerative economic warfare, and that won't be easy. Any arrangements to be workable, even for a few months, must also embody the committed agreement and the understanding of a great majority of the members of the international community. To say all this, is in effect to show why the only hope for early agreement, over the months immediately ahead, would have to be in terms of the broadest generality. To get a detailed articulation underneath these general terms, will have to require lengthy negotiation running into years. And once agreed, it will require the continued monitoring of a multinational body and provision for periodic revision.

It is in the context of that kind of comprehensive reform that the dollar can, if we wish it to, regain a crucial place within a truly multilateral, international monetary system. But that will require us to recognize an inherent duality between the maintenance of a reasonably stable value of the dollar at home, and maintenance of the conditions for confidence in the dollar abroad.

In such a setting, if we want to achieve it, the authors of reform may then go on to resolve the questions, which I am going to disappoint you by not discussing for another hour here tonight. These for the present, I am happy to leave with you. And with the indefatigable negotiators of the international monetary league. Although as some of you know, I have written and spoken on most of these questions on a good many occasions in the past. But my main emphasis tonight is to stress that we are living in a watershed of change. The first step toward resolution of our many dilemmas is to recognize that fact and from that, can come a new and different, but still important role, a critically important role for the dollar and for this nation at the center of a vigorous multi-lateralized world economy. (Applause)

CHAIRMAN, GEORGE R. VILA: Well Bob I know I express the sentiment of the membership when I thank you for that most thoughtful and illuminating talk. And I know that many of us will take away more than we came, and I can also guess that, that must have been one hell of a shower you had on Monday morning. Now, if you worry, as all right thinking people should, about any conflict between the protection of the environment and the functioning of our economic system, then we have the right man for you tonight. Senator Buckley was part of two expeditions to the arctic to repatriate Muskoxen. In so doing, he served the interest of both conservation and free enterprise. As one of his friends puts it, he cared about preserving the animals and thought the Eskimos should be supporting themselves. The Senator from New York is a living proof that contrary to widespread opinion, conservatives do care. He cares very much about the future. So much so, that he makes history by issuing the only Congressional Newsletter aimed at the 12 to 17 age group. The first issue of the newsletter explained the legislation to save the wild Mustang. He cares about other kinds of horsepower too. The kinds we need to keep the wheels of industry turning. For several years he worked for his family's oil exploration concern, where he learned a great deal about the economics of petroleum. Today, as a member of the U.S. Senate Committees on Public Works and Space, he advocates making available, far out research on potential new sources of generating power for public utilities. But above all, he cares about our natural patrimony. For instance, he opposed a bill to authorize the temporary licensing of nuclear plants pending an environmental impact statement. On several occasions, James Buckley was penalized for loving animals so much. At Yale, where he earned a law degree, his roommate a female boa constrictor named Martha was expelled from the campus. There was no fem lib movement then to save Martha. In the Navy it was said that he preferred wildlife to nightlife, whatever that might infer. (Laughter) But these hostile attitudes did not deter him. Gentlemen, it is my pleasure to introduce a man, who is dedicated to solving the energy crisis without creating an environmental crisis, James L. Buckley, Senator of the state of New York. (Applause)

James L. Buckley

Senator, State of New York

Thank you George Vila. I think that in your introduction you should have placed the emphasis that I had some experience on the economics of looking for energy, as opposed to producing energy. There is a very vital difference in that statement.

Ladies and gentlemen, or is it just gentlemen, gentlemen, I was much impressed with the very wise remarks, the stimulating remarks of Dr. Roosa to the extent that I found myself opening my prepared remarks and making slight corrections here and there, in the light of new found wisdom. But I couldn't help but be impressed by the introduction which you gave of Dr. Roosa of being in the treasury before Connolly and so on. When you got to saying that he was a member of Brown Brothers, why didn't you say before Harriman? (Laughter and applause)

Now your program says that my title is it's your energy crisis, which I suppose is as good a title as any. I think it might be more accurate to say that the title ought to be the economics which is your specialty, and the politics which has become my vocation of energy. In any event, I much admire the fortitude of this audience in listening to two 30 minute speeches in sequence. The circuit that I normally travel after 21 minutes, the consume exercises his prerogatives through a crescendo of whisperings and a clanking of spoons against the plate. (Laughter)

But you must have noticed, as I have in recent years, how much our nation's clergymen have begun to involve themselves in politics. And today, for a brief moment I would like to turn the tables by making reference to the scriptures. I hasten to say I don't do this with the intention of establishing myself as a biblical expert, but rather because I want to establish a metaphor, which I think is fitting to the topic of my discussion. The text which I select for this lesson is taken from the Sermon on the Mount. In which the Lord states that everyone who having heard his words and do with them not, shall be likened unto a foolish man who which built his house upon the sand. And the rain descended and the floods came, and the winds blew and beat upon that house, and it fell. And great was the fall of it. On the other hand, who soever hearing his words and do with them, the Lord likens to a wise man which built his house upon a rock. And the rain descended and the floods came, and the winds blew and beat upon that house, and it fell not, for it was founded upon a rock. Now I do not intend to suggest that I, in any way, can liken myself to the Lord, but I do suggest, however, (laughter) that there is a certain wisdom to be distilled from our economic experience that we are well advised to heed. The sands to which I make reference are the sands of the Middle East under which lie approximately 75% of the free worlds oil, and figuratively to a national energy policy rooted in conceptual sand. The rock to which I make reference is our untapped resources of fossil fuels and figuratively to a national energy policy constructed upon a conceptually solid foundation.

In January of last year, it became my privilege to participate in the Interior Committee's National Fuels and Energy Study. And as part of the study we have held a nearly 40 days of hearings which have produced a record of several thousand pages, if that means anything.

Other energy studies have been and are being made, and these include that massive three year study completed by the National Petroleum Council. The latter has involved an estimated 400 man years of work, with the full cooperation of representatives of the coal, nuclear, and electrical utility industries. From all of this material and from all of the comments, recommendations, speeches and questions, made and asked by those who will have a hand in formulating policy, we can now begin to see the full dimensions of what has come to be called the Energy Crisis as well as the principle options that will be available to us in coming to grips with it.

Personally I find the word crisis less than satisfactory. As it implies an unstable state of affairs of short duration which will be resolved for good or ill in the not too distant future. What we are faced with instead is a protracted period of chronic and growing deficiencies in the supply of indigenous fuels that will make our nation uncomfortably and some believe dangerously vulnerable to external economic and political pressures. This period of vulnerability will be of at least a dozen years duration, probably more, depending on the wisdom we exhibit in establishing our energy goals and of the policies we adopt in order to achieve them.

Recent studies indicate that between now and 1985 we can anticipate the domestic demand for energy to grow at an annual rate of about 4.2%. In order to estimate the plausible levels of indigenous fuel supplies that may be available to help meet this escalating demand, the NPC has postulated four hypothetical cases in the form of parametrics studies.

The NPC Case No. 4 assumes a continuation of existing governmental policies affecting the exploration for and the production and sale of domestic primary fuels. On this basis the NPC estimates that by 1985 our domestic self sufficiency in energy will decline from the current 88% to 62%. To meet this projected deficit we will need to import in 1985 an estimated $31.7 billion worth of foreign fuels and this was a figure advanced before the recent evaluations.

At this point, someone will predictably ask the question, so what? Those who see no cause for concern will point out that the oil fields of the Middle East can supply the petroleum needs of the Western world for decades to come. And that Western Europe and Japan have managed to get along quite nicely over the years despite their almost total reliance on imports to meet their petroleum needs. Why then, should we, in the United States, be raising such alarm over what is really a nonexistent problem, once artificial obstacles to petroleum imports are removed? Wouldn't that life be that simple, but it isn't. In the first place, Western Europe and Japan have by and large little alternative but to accept philosophically their dependence on external supplies for the sources of energy on which their economies increasingly depend. We on the other hand, do have alternatives, at a price.

Secondly, to the extent that the exporting countries are willing and able to utilize their control over exports for the purpose of exercising political pressures, the United States as the only super power in the West and as such necessarily involved in world politics, is the most important and likely target for such pressures.

Finally, if we do nothing, the dramatic increase in projected imports will have an impact on our balance of payments, which is of a different order from that which Western Europe or Japan will be experiencing in order to meet the incremental increases in their own energy needs. If I may, I will address these points in reverse order.

Last year, despite $48.8 billion of exports, we experienced a trade deficit of almost $7 billion and in the process, sent shock waves coursing through the money markets of the world. Seventy percent of this deficit was attributable to the cost of buying foreign fuels. The international and domestic implications of an explosive rate of growth in the U.S. fuel imports, from $2 billion in 1970 to $4.7 billion last year, to $15 billion in 1975, has not received the attention it deserves. (Audio ends and begins again, no overlap) ... funds to cover our rapidly growing fuel deficit. If the United States should find itself engaged in a trade war, and its anxiety to pay for its oil imports, it would have to do so at significant cost to the markets of the other industrial nations with whom we compete. This cost would not merely be economic but would certainly be political and diplomatic as well.

On the other hand, if the United States should fall chronically short of offsetting its imports with increased exports, the dollar would face a continuing series of devaluations with the repercussions and problems touched upon by Dr. Roosa.

Now let me touch upon the practical political consequences of a large dependence on foreign fuels by placing in some perspective the quantitative relationship between projected imports and our projected energy needs. In 1972 which was the first year in which our domestic oil fields were being produced at full economic capacity. We imported an average of 4.7 million barrels of oil per day, or about 28% of our total oil consumption. Based on the NPC's projections, if we allow the status to remain quo, in 1980 we will be required to import 16.4 million barrels a day. To put it another way, in 1980 we will be importing an amount of oil equal to our total consumption just a year ago. We will then be dependent on imports for an estimated 66% of our petroleum needs and 38% of our total energy needs.

What are the non-fiscal implications of this unprecedented and growing dependence on foreign sources for the energy required to fuel the American economy and sustain its people's standard of living? The first part of wisdom is to understand that only Iraq, Iran, Saudi Arabia, and the ministates of the Persian Gulf, have the reserves and productive capacity to supply the great bulk of our projected needs in the critical years between now and 1985.

Moreover, with the exception of Iraq and Iran, these states will be accumulating earnings so vastly in excess of their domestic needs, that they will soon have the power to withhold their oil from market for extended periods without real inconvenience. In 1980 for example, Saudi Arabia is expected to have oil revenues in excess of $12 billion a year, or more than four times that countries present national budget. Saudi Arabia's 4.5 million people, over half of them, nomads, simply cannot begin to consume or utilize the vast revenues their country will be earning from their oil. What this means is that if we do not adopt policies designed to lessen our dependence on foreign energy, two or three foreign governments will soon have the power to shut down a major portion of our economy. As some Arab leaders have already suggested, it is a power that could be quite plausibly utilized pursuit of political objectives, deemed sufficiently important to risk the precipitation of an international crisis.

But the implications of such a dependence go far beyond the possibility of an actual confrontation. The mere fact of our vulnerability to economic or political blackmail will in itself affect in subtle ways all kinds of decisions and calculations, foreign and domestic. Let us not for a moment forget that our ability to sustain viable alliances and to work for some measure of world peace, as depended upon the understanding on the part of friends and foes alike, that the United States is able to operate from a base that is militarily and economically impregnable.

Thus, because of fiscal and political considerations, of the greatest importance, we have no choice in my judgment but to view with great concern the rate at which we are becoming dependent on external sources for the one ingredient, energy, that is essential to our economy. Happily the situation we face is not insoluble, although, even under the best of circumstances, our passage through the next few years, will be anything but serene.

And like Japan and Western Europe, we do have options. The question really is whether we will exhibit the will and the wisdom to adopt a national policy best designed to lead us around the quicksands to safer ground.

We have options because the United States and its territorial waters still contain enormous reserves of fossil fuels of every kind, awaiting to be defined and developed. Coal of course, our most plentiful potential resource is one that can be liquified and gasified and thus is a source of supplementary supplies of oil and natural gas. It is clear that we are not shy of the basic sources of energy. We are, however, falling increasingly short of self sufficiency for a variety of reasons. We are running into shortages of natural gas for the clinically demonstrable reason that the artificial wellhead prices imposed on producers by the FPC, long ago destroyed any incentive to search for gas for commitment to interstate pipelines. Currently prevailing prices for crude oil will not justify the high cost and risk involved in seeking out the deeper and more marginal fields still to be found in the contiguous 48 states. A new and I believe long, long overdue environmental consciousness has resulted in a number of delays now in the process of being resolved on the basis of a more careful, balancing of social and economic benefits and costs.

I speak of the temporary delay in the issuance of off-shore leases in the Gulf of Mexico until we are assured that no irreplaceable damage assets will be destroyed. I speak of the controversy still surrounding the Alaska Pipeline. I speak of the restrictions imposed on the burning of high sulfur coal.

There is no question of it, the primary fuel resources are there to be found and produced in a manner consistent with economical and with the environmental ethic. But at a price. And the technology required to supplement those traditional sources of energy is also there waiting to be developed, also at a price. No one now questions that a substantial price must be paid if we are to bring domestic energy demand and supply within prudent reach of one another. The great debate that will be developing will involve not so much cost, as method.

It is my own belief that the most effective way in which the Federal Government can stimulate a rapid near term increase in our domestic energy productivity is to avoid the temptation of trying to regulate the energy problem out of existence. Or of attempting an active or preemptive role in those areas that are clearly within the competence of the private sector. But the private sector is capable of accomplishment, given appropriate incentives is reflected in the NPC's hypothetical Case No. 1. This case assumes among other things, the deregulation of natural gas, the retention or improvement of existing tax incentives and the adoption of policies which would allow the price of crude to attain by 1985 a level of $6.69 a barrel or $1.41 more than the price projected in 1985 for Case No. 4. Based on these assumptions the NPC study projects such a dramatic step up in the production of domestic fuels that by the year 1985 our dependency on foreign imports would be reduced to 11% of our total needs. It is my fear, however, that a growing demand for action will translate itself through the political process into demands for public activism. It is at this juncture that we run headlong into the tangled world of energy politics. We live in a time when the public and public officials are remarkably innocent of the dynamics of a free economy. Too few today really understand how capital is mobilized or what motivates its investment. Too few sufficiently appreciate the enormous size and diversity of the resources which the private sector could focus on any given problem often at very high risk, if appropriate incentives are present.

In this day of consumerism, too few stop to calculate the real cost to the consumer of ill conceived attempts to protect him from the operations of the marketplace. Nowhere is the stubborn refusal to face the economic facts of life, more evident than in the current resistance to the proposal that the wellhead price of gas be decontrolled. The evidence is irrefutable that the decision of the FPC, a decade or so ago, to regulate the price of gas delivered to interstate pipelines has unleashed a series of economic causes and effects, just about all of them bad. That now threaten to leave hundreds of thousands of consumers across the country stranded without gas at any price.

The imposition of artificially low prices on producers has had the highly predictable effects of A) drying up exploration, B) diverting gas to intrastate market, C) accelerating the depletion of existing reserves of this premium fuel by D) encouraging its industrial use as the cheapest available fuel on a BTU per dollar basis.

These are the documented results that have flowed from the governmental intervention in the competitive business of natural gas production. Yet, too many of the regulators and consumers refuse to bite the bullet. Instead of deregulation they asked for still greater regulation over intrastate sales, and over the selection of ultimate consumers. I for one, both as a consumer and as the representative of a consumer state, have greater confidence in the ability of the market forces to assure me and my constituents of an uninterrupted supply of natural gas at reasonable prices and to see that natural gas finds its way to its highest economic uses, than I have in the ability of the most exquisitely informed and motivated regulators to achieve these ends. (Applause)

Quite predictably we will find greater public pressures for federal action, than for federal restraint as we begin formulating the specifics of a national policy of energy. We should not be surprised that this should be so. We have become accustomed to seeking government solutions to almost every one of our problems and the more serious the problem, the more heroic the federal effort that is deemed appropriate. I don't mean to suggest that there is no area of the energy problem that requires an active federal role. Quite the contrary. There are a number of the most critical ones, where only a major and a sustained federal effort can provide us with the assurances of a long-term sufficiency of energy which any responsible policy must work to achieve.

One of the major obstacles to a rational and truly effective energy policy may result from the impulse these days, whenever a problem arises that requires a technological solution, to seek a massive federal program to find the answer. And of course, almost every aspect of the energy problem, beyond that of stimulating conventional exploration and development, depends to one degree or another on technological achievements. It is a failure to make an appropriate distinction between the nature of the desired achievements which can so distort our thinking. The impulse I speak of will attempt to solve a variety of technological challenges on a crash basis through massive transfusions of research and development funding analogous to the Manhattan Project which developed the fission bomb during World War II. This impulse is understandable as very clearly delineated R & D objectives such as placing a man on the moon, have in fact been achieved on a crash funding basis.

There are, however, sufficient, significant differences between the technological objectives within a comprehensive energy policy, to cause us to be wary of fiscal panaceas. Over the years our industries have achieved a series of spectacular technological triumphs without help or encouragement from government. On the other hand, there are other technological objectives, especially those requiring extensive pioneering research before their technical feasibility can even be assessed which involve lead time so prolonged that no private firm can justify the necessary investment. It is in these areas that only government in the pursuit of long range public policy is competent to act.

The problem of discriminating between those areas appropriate to government and those better left to private initiative is well illustrated by a major legislative proposal introduced last week by a friend and colleague who I much respect, Senator Henry Jackson. He proposes that we undertake a Manhattan like project whose objective it is, in his words, "to move quickly and efficiently in research and development in the areas of liquifying and gasifying coal, converting oil shale to synthetic liquid fuels, developing geothermal energy, demonstrating advanced power cycle technology and finding economical means for improving the environmental technology associated with the production of energy".

To this end his bill would establish a complex, including four mission oriented federal corporations, having a ten year budget of $2 billion per annum, to work in partnership with private industry towards the achievement of the stipulated objectives.

I do not quarrel with the objectives. But I do question whether the majority of them could not be more readily achieved through the adoption of federal policies that would harness and direct the dynamics of the marketplace. It seems to me that the precedent to be followed, if we want to accelerate the availability of synthetic fuels from coal and oil shale, where the technology is basically well-known but where refinements to reduce costs are needed; is not the massive crash funding approach of a Manhattan Project, but that which was adopted in the years following the Second World War to stimulate the discovery of adequate domestic reserves of uranium. In the latter case, the Federal Government created the necessary market incentive by guaranteeing under the appropriate circumstances to purchase uranium ore at a price of $3.50 to $4.50 per pound. This assured market for the product sparked an exploratory effort that set thousands of individual prospectors and corporate geologists into the field. And in very short order we were able to establish the indigenous base of uranium which national policy demanded.

It is my judgment insuring that the Federal Government ought not to attempt to involve itself directly in those areas of technology in which market incentives, whether natural or artificially induced can be relied upon to achieve the desired ends with maximum effectiveness and minimum direct costs to the government.

To attempt to deploy federal resources over too broad a front, will not only squander funds but may actually restrict the overall national effort by discouraging private initiatives. Rather, I would like to see the Federal Government concentrate its research and development on such areas as solar energy, fusion, hydrogen and other exotic but promising energy alternatives which lie beyond the reach of the private sector.

If I may summarize my own concept of the appropriate role of government in any comprehensive energy policy. It would include the following: 1) abolition of current artificial disincentives to the discovery of new energy resources, 2) encouragement of conservation measures so that by reducing waste, we may keep the projected increase in the demand for energy at a minimum consistent with the needs of our economy, 3) development of those strategic standby reserves that can be tapped or put on stream in relatively short order in times of national emergency, 4) establishment of an economic and political climate that encourages the development of indigenous resources to the levels required by considerations of national security, 5) planning for major federal investments in those areas of research and development beyond the reach of the private sector, so that we may develop and have on hand sufficient energy alternatives to supply us with the options we will need as we approach the end of the century. These and other measures must and can be initiated by the Federal Government. The effectiveness of the policy we ultimately adopt, will depend, in my judgment on the extent to which we are willing to rely upon and utilize the extraordinary creative energy that exists within our system of private, free, competitive enterprise. The energy that exists, if you will pardon my use of a phrase, not frequently heard in public these days, the energy that exists within the capitalistic system. Only in this manner can we build a truly firm foundation on which to construct a national energy policy, upon such a foundation the house will fall not.

If on the other hand we attempt to build a house on a foundation of costly and untried bureaucratic sands, it will fall, and great will be the fall of it. Thank you. (Applause)

QUESTION AND ANSWER SESSION

CHAIRMAN GEORGE R. VILA: Well Senator, that was one hell of a speech. (Applause) We will now have the questions, and we will start with Leonard Silk, who will address the first question to Bob Roosa.

LEONARD SILK: Bob, it is a pleasure to be here, and I must say, for my own sake and I am sure for everybody, that was a very thoughtful and soul searching speech. I want to you first a question about the soul searching nature of it. Back over all of the years that we have parried with one another, I have always known you to be a fixed rate man, and I also knew when he came into office, your distinguished successor, Paul Volcker, to be a fixed rate man. One of the first questions that anybody asked Paul, was what about floating rates and flexibility. He said, that is an academic matter and it is going to stay academic. But the world has changed. And Paul came back from his last trip, and said, we are off par values and he held it. And his counterpart, up one level, in Germany, Helmut Schmidt was a fixed rate man and he spent $10 billion proving it. Now you haven't had that recent experience, but how do you come out of all of this. Your speech seemed to me to be somewhat ambiguous. Are you undergoing a reconversion?

ROBERT V. ROOSA: I hate to say a reconversion and I wouldn't say a conversion. I would say that in parallel with what I sense to be, and tried to describe quite inadequately, a deep and pervasive change in the nature of the world economy, that we clearly will have to rely on monetary arrangements that are in their nature and in detail quite different from those that were appropriate but when, as I tried to describe, the United States, both in real terms, and in monetary terms was the kind of gyroscope that kept all things stable and in balance. In this new environment, we have to think flexibly. I tried to say that there were as many versions of flexibility as there were interpreters and that we were going to have to find a middle way, somewhere between the free floating that turns the markets into a speculative orgy and the rigidity which creates the orgy in the form of massive movements of reserves. Just how and where we are going to find it is going to be a process of the kind of compromise that characterizes real progress in human affairs. And I would have to confess that I don't have a simple and an easy formula at this stage. What I tried to stress was that the greatest sin at the moment would be to rush forward with the assumption that any of us have firm answers and try to freeze the system now. We need to improvise well enough to get through the next two or three years and I believe that one is coming. I don't think it is going to mean full floating flexibility of rates. It certainly is going to mean a readier adaptation of exchange rates than we have known until the last two years. The key is that it be done jointly in mutual understanding and negotiation among the leading countries. That is what is new. That is what we always didn't dare face. It was so much easier to assume everything was fixed, each at its own par value and the system fell into place. There is now going to have to be a mutually determined result. And it is finding the way to get that result. It will have established rates, not fully flexible and floating ones, but they will be rates that will change under agreed conditions and from time to time result in periods of temporary adjusting floats of the kind we are experiencing now. That to me is a recognition of new conditions which I must admit ten years ago I did not visualize.

LEONARD SILK: One of the more serious problems we are facing is that there is so much money loose in the world, most of it, it seems dollars. One gets very different estimates on how many dollars there are afloat but certainly we have pretty good figures on those in the hands of central banks. The numbers now seem to be somewhere up around $80 billion after these recent outpourings. The euro dollar market is such a mystery that nobody knows how to count the numbers especially since it seems to have the proclivity for multiplying itself. But estimates run as high as $100 billion or more. Now how do you get all of that liquidity back in the bottle? How do you think we should try to deal with this overhang problem?

ROBERT V. ROOSA: There too, I hope I am learning with changing conditions. Until a couple of years ago I felt that whatever excess, overhang of dollars might exist was of a magnitude that could, if we found ways of immobilizing it temporarily with the growth of the world would soon become useful and necessary in the international scale and that we could in fact in time come to live with the existing supply of dollars provided we maintain balance of payments, discipline at home, did not go on contributing massively to the additional supply. Unfortunately, that has not been the case. There has been a massive addition. What happens is that you don't simply add the dollars that have appeared in the past couple of years; their existence has created a state of unease, not only about the new ones, but what about the old ones. So it is extremely difficult to guess, but there will, now, I am sure, as a part of the reform, and I hope an early step in the reform, have to be a massive consolidation of outstanding dollar balances. The technique and form, I hope, is the subject of discussion going on this very day. And the results I hope will be apparent within a year. This involves so many different issues, a question of how to multi-lateralize, rather than simply uni-lateralize. The answer is difficult, but I am sure there will have to be a consolidation and it will have to be arranged in such a way that it will assure the absorption of all of the uneasy holdings. Whether that in time will prove, once the offer is open, to be $10 billion or $20 billion, or perhaps even more, is of course, undeterminable now. The arrangements must be vast enough and capable of handling magnitudes of that scale. I am sure they can be devised. You and I Leonard could write the plan ourselves.

LEONARD SILK: Let me ask you one final question. I think everyone has been struck with the amount of space this story has got, not only in the last days and weeks, but for really a very long time. I remember that famous first trip that took place back in the Eisenhower administration when Secretary Anderson went hat in hand to Europe to try to deal with the problem. Now, despite what a great story this is, and what a lot of fun it is for Under Secretaries of the Treasury, we don't seem really to have suffered quite the anguish of a continuing crisis of this kind might imply. Why do you suppose that is? And are we still waiting to be thrown out of the window or to fall the rest of the way, assuming we are passing the third floor, or is it really as that distinguished professor says, author of that horrible phrase in this context, benign neglect. Is it really a more stable system than we have let on? Or are we in fact facing a very serious denouement if we don't do what you are telling us?

ROBERT V. ROOSA: The point of the second half, which I read as the second quarter of my fast-paced remarks, was to suggest that there is in the real economy the physical goods and services economy, an approach toward a fundamental dis-equilibrium which is jerkily moving toward a potential impasse. One of the clearest evidences of that is the oil and gas and broader energy issues that we have heard so wonderfully described here this evening. I think in the effort to meet those issues, we will eventually have to deal with much more than money. But as we have been lurching forward as those underlying problems were working their way through in a world economy that was so vast and still in a relatively such an early stage in the use of its resources, that we could in effect afford to squander, afford to have the mismatching, still achieving rapid progress that the moment of underlying forward advance in the real economies has been so great that all it has produced from time to time over the past 10 or 15 years has been an occasional spasm on the surface that came through as a monetary crisis. In trying to deal with it as a monetary crisis, through these years, we gave not only exhilaration but a fair amount of anxiety to the people who had that responsibility, but they were always trying to improvise, but I hope to improvise in forms that would lead to the evolution of a pattern. I don't want to labor this too hard, but I could argue if I had the extra hour, that almost every major innovation during the period that I knew more about it when I was associated in the Treasury, does have a role to play in the adaptation to these new conditions. And it will be of course, not precisely as we first conceived it, but it will have a role. And yet, none of those, as we put them altogether in the new shape of a more comprehensive reform, which I would call constructive rather than loose flexibility, as we put them together in the new form, will be in the end, totally inadequate unless we have worked out by mutual agreement among the major nations, guidelines for the real economies underneath. So far, those troubles have broken through as monetary spasms. We have dealt with them in that context and the real economy underneath has remained strong. But at last I think we are beginning to read the lesson of those spasms, one after another, and the lesson is, to do something underneath, including so many of the things that Senator Buckley has described tonight. (Applause)

CHAIRMAN GEORGE R. VILA: Senator, will you bow your head now, while Mr. Ringer works you over.

MR. RINGER: Senator in your comments, you referred to the need for a national energy policy and I hardly concur with that. However, the energy shortage that our nation is now faced with has been gradually evolving over the past 20 years. And during that time, there have been many calls for a national energy policy. Yet, here we are today without one. How much worse must the situation become, or how much longer do you think it will be before an accepted policy will be established?

SENATOR JAMES L. BUCKLEY: One of the sad things about human affairs is that we always wait until a situation becomes nearly intolerable before we start to do anything about it. I think we are close to that point and I think that if you follow the activities in the Congress, follow the deliberations in the White House and so on, I think we can assume that we have reached that kind of a crescendo which will force a policy. Either one originated by the Congress or defined by the White House, hopefully one which is a compromise, which is a melding of the input of the two. What I tried to suggest in my remarks actually was that I think that the public at large is now beginning to be sufficiently antsy given the curtailment of gas, the talk of rationing of gasoline, closing down schools in different parts of the Midwest and so on, because of a shortage of heat. That there will be a demand of action. My concern is that those demands will not drown out reason.

MR. RINGER: Many years ago, mandatory controls were placed over imports. The import program did not function effectively because of, shall we say, politics. Assuming that a sound energy policy can be established, do you think in the light of political realities that it will indeed be permitted to function effectively?

SENATOR JAMES L. BUCKLEY: That is again one of the great questions of our times. I personally, when those import controls were imposed, some years ago, I opposed them and felt that the security issue was then a phony, it was let's face it, protectionism. The passage of time has had the effect of validating the reasoning. I still am uncertain about quotas as the appropriate technique, but if we define our energy objectives, precisely enough and not in the sort of general sense that we have to have a viable domestic wildcatting situation in the southwest and so on, which will enable us to have that expertise, etc., etc., to meet that theoretical danger. Now that we have not a theoretical danger but one that can actually be plotted, I would hope that we would adopt mechanisms, and I am not prepared to say what mechanisms, I haven't frankly gotten that far along in my own thinking, but mechanisms which would strive not just to keep a viable domestic industry going, but one which would be designed to try to build up a reserve capacity, whether it be storage, or the government acquisition of semi-proven reserves which could be done through a checkerboarding pattern in off-shore leasing. Any number of mechanisms might be adopted which would try to get us sufficiently ahead of the game, either through storage or through a standby capacity that could be put on stream, reasonably short notice, which would A) help us to ride out through a period of belt tightening an actual emergency, and B) because of a demonstrable capacity to ride out such an emergency, avert such an emergency.

MR. RINGER: The shortage of all forms of energy can be traced directly to a lack of capital funds needed to fund and develop supplies of energy. Considering the vast capital needs of all of the energy industries in the future, it does not seem possible to me that these needs can be achieved so long as we have control over price. Now, only last week, an action was taken by the Cost of Living Council, which again, seems to me to be a step in the wrong direction, again, do you think that there is a sufficient understanding within Washington of the role played by capital within the energy industries?

SENATOR JAMES L. BUCKLEY: No. Not only within the energy picture, but within the economy of the United States, one of the things that I find really alarming, is, and I touched upon it, I believe in my remarks, is the extent to which people in the United States generally, and therefore, their representatives in the Congress specifically, have lost sight of that intuitive knowledge or even book learning, as to what it is that causes someone to save, what it is that causes someone to risk, what is it that causes management to invest. With the result that all kinds of decisions are apt to be made, which will be counterproductive to the extent that we have a captive audience here, I would urge all of you to direct your energies in the years immediately ahead to this educative process, not textile industry talking about textile problems. I would love to see the textile industry talking about the need for free trade. This is the kind of enlightened business intervention, business loving, if you want to call it, in the highest sense that we need. (Applause) But, I haven't really answered your question, have I? You have sort of led me off. I believe that before we can specifically persuade people of the rock-ribbed fact that you have to have a profit motive in order to induce people to invest money in the high-risk business of finding oil, gas, or what not, within our national jurisdiction. You are going to have to get out there and persuade and teach. Unfortunately, the oil industry is sort of a bad thing; in terms of the rhetoric of this country. Now, in terms of the vast amount of money that must be wielded, that NPC Case No. 1 study, the optimum study to which I referred, felt that these passive incentives would unleash about $530 billion worth of investment in the next few years. Now my own experience is strictly in the crap shooting end of the game, outside of the United States and I know the number of people who are willing to try to beat the odds in order to have the opportunity to realize a capital gain. We only need to look at the New York lottery to know that somewhere in the body politic is an understanding that people will risk against the odds to beat the odds. We can solve our problems only if we appeal to that instinct. (Laughter and applause)

CHAIRMAN GEORGE R. VILA: Gentlemen, I know that the subject matter and the presentation of the speakers has been such that many of us would like to go on for an hour or two more on this, but the 10:00 closing hour is here, so again I thank you Mr. Roos and Senator Buckley for a most stimulating and informative presentation and good night. We will see you next meeting. (Applause)